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ABSTRACT

Current and alternative funding policies and their projected effects are addressed in this final report of the Minnesota Task Force on the Future Funding of Postsecondary Education. After considering the formation and proceedings of the task force, the following legislative funding policies are discussed: legislative appropriations process, enrollment bulge funding, core funding, program funding, and special appropriations. Allocation policies to the community colleges, state universities, the University of Minnesota, and vocational-technical institutes are also covered. Alternative funding policies concern: average cost funding, fixed and variable cost funding, core funding, and program funding. Funding policy evaluations consider the following issues: innovative resource management, equity, recognition of cost patterns, quality, and productivity. Attention is also directed to educational issues related to funding policies, including: the size and number of postsecondary institutions, effectiveness, productivity, the private sector, coordination, and the relationship between costs and financial aid. The report concludes with 11 findings of the task force and 7 recommendations. (SW)

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ED279267

FINAL REPORT OF THE TASK FORCE ON THE FUTURE FUNDING OF POST-SECONDARY EDUCATION

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December 1982

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"The Task Force on Future Funding believes that the most important goal for Minnesota post-secondary education must be the preservation of high quality programs and services."

FINDINGS AND RECOMMENDATIONS

The Task Force on Future Funding believes that the most important goal for Minnesota post-secondary education must be the preservation of high quality programs and services. The state faces both unprecedented fiscal problems and enrollment declines. It is unlikely that the state revenue picture will return to the favorable condition of the 1970s. Total enrollments in post-secondary education are projected to decline by up to 24 percent during the next 15 years. These conditions could seriously erode the quality and vitality of post-secondary education unless state policies are directed at the maintenance and enhancement of quality.

FINDINGS

1. Current funding policies will not preserve or enhance the quality of post-secondary education in Minnesota.
2. Current funding policies and governance structures do not encourage collaboration and coordination between institutions, systems, and sectors.
3. The distinction between the governing and management roles of the lay governing boards and the broad funding and policy roles of the legislature has been blurred.
4. The bulge funding policy accomplished its objective of reducing state funding requirements for the collegiate systems in a period of increasing enrollments.
5. Current funding policies do not consistently encourage innovative resource management.
6. Minnesota public post-secondary systems have been treated inequitably because there is no comprehensive funding policy.
7. Current funding policies do not consistently relate funding to levels of enrollment and the costs associated with those levels.
8. Current funding policies do not encourage systems to increase their productivity.
9. The current AVTI program funding policy is not an educationally or fiscally sound policy in a period of constrained resources and declining enrollments.
10. The split budget review and appropriations process for post-secondary education inhibits development of comprehensive policies for the systems of post-secondary education.
11. Tuition is the most powerful finance factor available for changing the state's funding obligation for post-secondary education.

RECOMMENDATIONS

1. A mechanism to reallocate one percent of all expenditures and all savings in order to encourage improvements in the quality and productivity of post-secondary education should be established.
2. Greater collaboration and coordination between institutions, systems, and sectors must be encouraged.
3. The state should honor the commitment of the bulge funding policy as enrollments decline.
4. The state should adopt a comprehensive cost related tuition policy for post-secondary education and adjust funding for need based financial aid to prevent loss of access by low income students.
5. The governing boards of the systems must have the maximum amount of responsibility and discretion with respect to policy and allocation decisions regarding their institutions. Legislative involvement in policy and allocation decisions regarding individual institutions should be discouraged.
6. Post-secondary education appropriations decisions should be unified under one committee in each legislative body.

"Average cost funding should be the basic funding policy for Minnesota public post-secondary education systems."

7. Average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy should:
   a. buffer funding changes associated with enrollment changes;
   b. control for differential growth in programs and levels of instruction;
   c. be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.

"The Task Force identified four alternative funding policies to investigate. They include average cost funding, fixed and variable cost funding, core funding, and program funding."

SUMMARY

The overriding theme in the Task Force's consideration of current and future funding policies has been the promotion of quality post-secondary opportunities for Minnesota residents. The health of Minnesota's economy is related directly to the presence of a well-trained work force; and a quality post-secondary system is critical to the training and education of workers. The erosion of quality in the state's educational institutions and programs will undermine Minnesota's most important resource: the people of the state. During the next 15 years, post-secondary education will face changing conditions – pervasive enrollment decreases and limited state resources for supporting public programs. For these reasons, the primary objective for state policies for post-secondary education must be to preserve the quality and vitality of institutions and programs.

Following the annual meeting with governing boards in November 1979, the Minnesota Higher Education Coordinating Board established a task force on funding for post-secondary education to examine the implications of enrollment declines on current funding policies and to explore some alternative policies that will preserve and enhance quality. The Task Force is comprised of representatives from the education community, government, and the public.

During 1981, the Task Force invited guest speakers from the education community and government to share their experiences and observations regarding funding for post-secondary education. Several speakers addressed the problems confronting state governments in funding post-secondary education. Other guests discussed specific funding approaches and methods. One speaker devoted his remarks to student financial aid.

The Task Force identified several methods currently used in Minnesota for funding public post-secondary education. The legislature has adopted certain funding methods for determining its appropriations to the post-secondary systems. The systems, in turn, have developed methods for allocating funds to individual institutions. Most methods are related to enrollments. Some of these recognize marginal costs, economies of size, and operational cores that assure specified minimum levels of support for institutions with low enrollments. Other methods provide funds for programs with less emphasis on enrollments.

The Task Force identified four alternative funding policies to investigate. They include average cost funding, fixed and variable cost funding, core funding, and program funding. An average cost policy would relate funding directly to enrollments. A fixed and variable cost policy would relate funding for variable expenditures directly to enrollments and provide stable funding for fixed expenditures. A core policy would provide stable funding to small institutions for a minimum program offering regardless of enrollment levels. A program policy would provide stable funding to all institutions on the basis of their program offerings, which would vary only as a result of drastic enrollment changes.

The Task Force reviewed projections of resources for Minnesota's post-secondary institutions derived by applying current and alternative funding policies to projected enrollments. Each alternative funding policy was simulated in conjunction with the current tuition policy and an alternative tuition policy. The current tuition policy held tuition rates at their constant dollar Fiscal Year 1983 level. The alternative tuition policy set tuition revenue equal to 33 percent of operating expenditures for the collegiate systems and 17 percent of operating expenditures for the AVTIs. The projections illustrate the effects of the state's fiscal crisis, reductions in state appropriations, and increases in tuition revenue.

Projections of current funding policies indicate that the overall decline in post-secondary enrollments will result in declining resources for post-secondary education. Generally, the more responsive funding is to enrollment, the greater would be the reduction in resources. The effects, however, would vary among individual institutions. Small institutions, particularly those with a recognized operating core, would lose fewer resources. As a consequence, small institutions would receive more resources per student than larger institutions.

The average cost funding alternative would cause stable staffing ratios and levels of expenditures per student regardless of enrollment levels. Differences between institutions in expenditures per student and staffing ratios would be those which existed in

"None of the existing or alternative funding policies contains explicit incentives for providing high quality services or for increasing productivity."

the base year. For all systems, an average cost funding policy would provide fewer resources than any current funding policies or any other alternative. Consequently, required state appropriations would be lower with average cost funding than with any other funding policy under both the current and alternative tuition policies.

A fixed and variable cost policy would cause decreases in staffing ratios and increases in expenditures per student in periods of enrollment decline. As enrollments increase, staffing ratios would rise and expenditures per student would decline. Thus, a fixed and variable cost funding policy would increase disparities between small institutions and large institutions. The collegiate systems would receive more resources under fixed and variable cost funding than under current funding policies because of stable funding for fixed costs. The AVTIs would receive fewer resources under fixed and variable cost funding than under current funding policies because funding for variable costs would decline with enrollments. Consequently, a fixed and variable cost policy combined with the current tuition policy would require higher levels of appropriations for the collegiate systems but lower levels of appropriations for the AVTIs. If fixed and variable funding were combined with the alternative higher tuition policy, however, levels of state appropriations would be lower than under current policies for all systems.

Program funding would cause significant decreases in staffing ratios and significant increases in expenditures per student as enrollments decline. Disparities in staffing and funding between large and small institutions would become larger under program funding than under any other funding policy for the collegiate systems. The collegiate systems also would receive more resources under program funding than under any other funding policy. When coupled with the current tuition policy, program funding would require levels of state appropriations which are higher than under any other funding policy. The alternative tuition policy, though, would reduce the required appropriations under program funding to levels below those of current funding policies.

A core funding policy would cause declining staffing ratios and rising expenditures per student in small institutions where it was implemented. Since it provides additional resources to small institutions only, core funding would increase staffing and funding disparities between small and large institutions. Core funding would provide slightly higher staffing expenditures and appropriation levels than current funding policies for the Community College System. The alternative tuition policy would reduce required appropriations under core funding below levels of current policies.

The Task Force reviewed the Coordinating Board's Goals for Investment of Public Resources in Post-Secondary Education. To guide its evaluation of current and alternative funding policies, the Task Force defined five criteria consistent with those goals. The criteria include:

1. **Providing Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems in an equitable manner.

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, and program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

The Task Force evaluated current and alternative funding policies based on the policy's projected resource requirements and the extent to which each policy satisfied the evaluation criteria.

Current funding policies differ in the extent to which they promote innovative resource management. The State Board for Community Colleges has made allocation decisions to support small and high cost institutions out of existing resources. The Board of Regents of the University of Minnesota has developed an extensive internal planning process to guide budgeting and reallocation. On the other hand, the legislature has funded three of the seven state universities in a manner different from the others and, consequently, the State University Board has not had to reallocate funds internally. Program funding for the AVTIs fails to provide incentives for resource management because it is based on prior expenditures. Of the alternative funding policies, average cost funding best satisfies the resource management criteria by directly relating state appropriations to enrollments.

Current funding policies have not always been applied equitably. Core funding has been provided for Southwest State University only, although the University of Minnesota, Morris

"Current funding policies differ in the extent to which they promote innovative resource management."

and several community colleges are confronted with similar enrollment and funding situations. The bulge funding policy, which provided only limited state support for enrollments above a 1977 base level has not been applied to the AVTIs, although they faced a similar enrollment pattern as the collegiate systems. The current tuition policy provides differing subsidies to the four systems. Each alternative to current funding policies could satisfy the equity criterion if there are adjustments for the inequities in the current bulge policy, tuition policy, and recent funding reductions for post-secondary education.

Current funding policies differ in their recognition of cost patterns. The bulge policy correctly recognized that the marginal costs associated with temporary enrollment growth are less than average costs. Neither the duration of the policy nor the magnitude of the enrollment bulge was specified when the policy was adopted. The enrollment related funding policy in effect prior to 1977 did not recognize that some expenditures are fixed and do not decline with enrollments. Conversely, the fixed funding for the AVTIs does not recognize that many expenditures are variable and do decline with enrollments. Of the alternatives, two – fixed and variable funding and core program funding – best recognize cost patterns.

None of the existing or alternative funding policies contains explicit incentives for providing high quality services or for increasing productivity. In fact, some disincentives for increased productivity do exist in the AVTI funding policy.

Several major educational policy issues were raised by the Task Force review of funding policies. These issues are size and number of institutions; program effectiveness; ways to increase productivity in instruction and support programs; the role of the private sector; implications of finance policies for student assistance; providing public services on a contractual basis; the appropriate role for legislators, the governor, and governing boards; and state responses to declining enrollments in elementary and secondary education. Funding policies and decisions can have an impact, sometimes indirect, on these important educational issues. Decisions regarding funding policies must address these educational issues whenever possible.

None of the current funding policies reviewed directly addresses the issue of the size and number of Minnesota's public post-secondary institutions. The size and number of public institutions, however, could adversely affect the quality and vitality of public post-secondary education. Alternatively, the consolidation of some institutions might allow Minnesota to protect or even enhance the quality and vitality of public post-secondary education. Funding policies can be implemented which would provide an incentive to governing boards to consider alternative ways to organize institutions and programs.

None of the current or alternative funding policies reviewed would provide direct incentives to improve the effectiveness of public post-secondary institutions in Minnesota. Three of the alternative funding policies – fixed and variable cost funding, program funding, and core funding – would withdraw resources at a slower rate than enrollment declines and, consequently, would not necessarily hinder effectiveness. State decisionmakers should consider ways of providing funds which would directly encourage greater effectiveness.

The evaluation of current funding policies concluded that they contain no explicit incentives for increasing productivity. Increased productivity, however, would seem to be one way for post-secondary institutions to respond to the challenge of declining enrollments and resources. It may be necessary to establish a policy separate from the primary funding policy to encourage increased productivity.

State funding and tuition policies for public post-secondary education also affect the private sector of post-secondary education. The private sector is an important part of post-secondary education in Minnesota. Private institutions face the same prospects of declining enrollments and resources as the public institutions. The impact of state funding and tuition policies on the private sector must be considered.

Coordination of post-secondary education in Minnesota is neither encouraged nor discouraged by the current or alternative funding policies reviewed. Coordination is desirable since it could expand educational opportunities and make more effective use of existing programs and facilities. Since neither the current nor the alternative funding policies would provide direct incentives for coordination, a policy separate from the primary funding policy might address this issue best.

For many students, tuition represents a major component of educational costs. Whether tuition is raised on an ad hoc basis in response to state shortfalls, or in response to explicit policy considerations, additional funds should be invested in financial aid to maintain the commitment to assist economically disadvantaged students.

There is growing pressure to reduce public expenditures and improve the effectiveness of public programs. Contracting has been suggested as one way to improve effectiveness and reduce the cost of public services. Decisionmakers might consider contracting as part of a new funding policy.

"The review of the appropriations process has revealed wide variation in roles between the legislature and governing boards."

The review of the appropriations process in Minnesota post-secondary education has revealed wide variation in roles between the legislature, the governor, and governing boards. In view of very serious funding and educational choices in the next decade, clarification of the roles to be played by the three would contribute to more effective policy making and governance.

The manner in which the state of Minnesota has responded to enrollment declines in public elementary and secondary education may provide insight which would be useful in formulating policies for post-secondary education. The state has responded to declining enrollments in public elementary and secondary education in three basic ways. First, the manner in which levels of state aid were determined was modified. Second, school districts were required to do long-range program and fiscal planning. Finally, state statutes and regulations were modified to simplify the procedure for consolidation of school districts.

"The issue posed by declining enrollments and fiscal constraints in the 1980s and 1990s is whether the maintenance of current policies or the development of alternatives will best serve the public interest."

I. FORMATION AND PROCEEDINGS OF THE TASK FORCE ON FUTURE FUNDING

INTRODUCTION AND BACKGROUND

Minnesota has a vital interest in how state funding policies and procedures affect the quality and variety of post-secondary education in the 1980s and beyond. Minnesota's current funding policies and procedures were developed in a time of enrollment growth and fiscal prosperity. The issue posed by declining enrollments and fiscal constraint in the 1980s and 1990s is whether the maintenance of current policies or the development of alternatives will best serve the public interest.

The annual meeting of governing boards, sponsored by the Coordinating Board in November 1979, examined the implications of enrollment declines on current funding policies and explored some alternative policies.[1] Based on the governing boards' meeting and the priority attached to the issue by the governor, the Coordinating Board invited leading figures involved in the funding of post-secondary education to serve on a task force. Because of the serious financial implications for all systems and sectors of post-secondary education, the Board felt that participation by these persons in policy formulation would be desirable. Accordingly, in January 1980, the Coordinating Board established the Task Force. Funding for the project was provided by a grant from the Ford Foundation.

[1] Minnesota Higher Education Coordinating Board, *State Funding of Post-Secondary Education in the 1980s and Beyond: Working Paper and Proceedings, Annual Meeting with Governing Boards* (November 29, 1979).

CHARGE TO THE TASK FORCE

In May 1980, the Coordinating Board gave the Task Force its charge for the study of funding.

The Task Force shall:

A. Be convened and staffed by the Coordinating Board and chaired by the executive director of the Board or his designee.

B. Assess the implications of continuing existing funding policies and implications of alternative funding policies, including those alternatives which recognize fixed and variable cost behavior.

C. For purposes of evaluation, precisely define the funding policies to be considered, including a description of how each policy should be implemented.

D. Define criteria, consistent with the state's goals for post-secondary education, for evaluating the advantages and disadvantages and costs of funding policies.

E. Recommend feasible alternative funding policies for post-secondary education in a period of declining enrollments and constrained resources. The recommended policies should recognize and enhance the mission of the systems of post-secondary education in order to provide the highest quality of opportunities to Minnesota citizens.

F. Make an interim report on its progress and findings to the Coordinating Board and respective governing boards.

G. Make a final report on feasible policy alternatives to the Coordinating Board.

MEMBERSHIP

The Task Force on Future Funding of Post-Secondary Education has 16 members representing the education community, government, and the public.

Education and Government

Dr. John Feda, Commissioner of Education;

Dr. Garry Hays/Dr. Jon Wefald, Chancellor of the State University System;

Dr. Philip C. Helland, Chancellor of the Community College System;

Mr. James Krause, Member of the Higher Education Coordinating Board;

Dr. C. Peter Magrath, President of the University of Minnesota;

Mr. Wilbur Nemitz, Representative of the Minnesota Association of Private Post-Secondary Schools on the Higher Education Advisory Council;

Dr. Marion Shane, Executive Director of the Private College Council;

Mr. Allen L. Rudell, Commissioner of Finance.

Legislature

Representative Lyndon R. Carlson, Chairman of the Education Division, House Appropriations Committee;

Senator Jerome M. Hughes, Chairman of the Senate Education Committee;

Representative Carl M. Johnson, Chairman of the House Education Committee;

"The Task Force invited guest speakers from the education community and government to share their experiences and observations."

Senator Tom A. Nelson, Chairman of the Education Subcommittee, Senate Finance Committee.

Lay Members

Mr. James Hetland, Vice President, First Bank Minneapolis;

Mr. Norman Indall, Winona, former mayor of Winona and head of Social Science Department, Winona public schools;

Mr. Verne Johnson, Vice President for Strategic Planning, General Mills Corporation, Governor's Representative;

Dr. Hazel Reinhardt, Director of Research, Minneapolis Star and Tribune.

PROCEEDINGS

Following the first Task Force meeting in October 1980, a workshop was conducted in December for Task Force members, post-secondary governing board members, and other interested parties. A representative of each post-secondary system discussed the system's funding method and practices, its current level of funding, and the factors other than enrollment used for determining state support for the system and member institutions. Governor Quie addressed workshop participants.

During 1981 the Task Force on Future Funding of Post-Secondary Education invited guest speakers from the education community and government to share their experiences and observations. Summaries of their remarks appear in the *Interim Report of the Task Force on Future Funding.*[2] The full texts of their remarks are contained in Appendix C of this document, which is available under separate cover.

[2] Minnesota Higher Education Coordinating Board, *Interim Report of the Task Force on Future Funding* (April 1982).

"The legislature has adopted several policies for providing funds to the post-secondary systems. Each system, in turn, has internal policies for allocating state funds to individual institutions."

II. SUMMARY OF CURRENT FUNDING POLICIES AND PROJECTED EFFECTS

REVIEW OF CURRENT FUNDING POLICIES

The legislature has adopted several policies for providing funds to the post-secondary systems. Each system, in turn, has internal policies for allocating state funds to individual institutions. This chapter contains a discussion of several financial policy issues followed by a description of current funding policies. The chapter concludes with summaries of the projected resource requirements of current policies.

GENERAL QUESTIONS OF FINANCE

Public post-secondary education receives revenue from four major sources – tuition, direct state appropriations, federal funds, and private gifts. The importance of each source varies by system. Tuition as a portion of costs associated with instruction amounts to about 17.0 percent at AVTIs, 30.6 percent at community colleges, 25.9 percent at the state universities, and 32 percent at the University of Minnesota in F.Y. 1983. State appropriations have covered most of the remaining costs. Federal funds and private gifts constitute major sources of revenue at the University of Minnesota. Although much of the federal effort has supported research and other non-instructional activities, the federal government has provided direct support to the University for instruction in expensive health science programs. The federal government also has provided resources to AVTIs for special services such as counseling and guidance for handicapped students. In the community colleges and state universities, federal funds mostly have been available for student aid rather than institutional operations and educational activity.

Reductions in government support will have severe consequences for the financing of post-secondary education. Decreases in federal funds will force the state either to assume financial responsibility for certain programs or to reduce or terminate them. Decreases in state resources could either shift the burden of supporting educational services to students through higher tuition or erode the quality of educational services. Declining enrollments will exacerbate matters as fewer students will generate less tuition revenue if tuition rates remain stable. In response, the state once again would have to determine whether to reduce services, increase appropriations, or raise tuition rates.

Decisionmakers must also bear in mind that changes in tuition policy would have an impact on the funding required for financial aid. The state provides a significant appropriation, $36 million in 1982, for financial aid. A tuition policy which resulted in substantial increases in tuition rates could necessitate increased levels of state funding for financial aid.

Consideration of funding methods should take into account the impact on finance, particularly on tuition. As enrollments decline, different combinations of funding methods and tuition policies will affect the proportions of educational costs borne respectively by the state and by the students. For example, if total resources are allowed to decline in direct relationship to enrollment, costs per student will remain relatively constant. Because cost per student would be constant, both tuition rates paid by the student and tuition as a percent of educational costs would remain constant. If, on the other hand, total resources are maintained at a stable level as enrollments decline, costs per student will increase. This would present a choice. Tuition rates could remain stable, thereby decreasing the portion of educational costs paid directly by students. This, in turn, would require increased state appropriations to make up the growing difference between cost per student and tuition per student. In contrast, tuition as a percentage of costs could be fixed, thereby maintaining the portion of educational costs paid directly by students. As costs per student grow, tuition rates paid by students would grow proportionately. State appropriations per student, thus, would not have to increase as much to meet increasing costs.

Determining the total amount of state appropriations for post-secondary education and the distribution of

"For several biennia the legislature has provided funding for Southwest State University and Metropolitan State University on a separate basis from the other campuses in the State University System."

those funds is a critical policy issue facing state decisionmakers. In recent years, state funding for post-secondary education has constituted between 11 and 12 percent of the total state budget. In a period of prosperity, the state was able to provide steadily increasing levels of appropriations to post-secondary education. However, the current fiscal environment, combined with projected enrollment declines, may make it difficult for post-secondary education to maintain its current percentage of the state budget. Alternatively, post-secondary education may maintain its current percentage of a shrinking state budget. The state's investment in post-secondary education must also be allocated between funds provided to institutions and funds to students. In 1982 funds provided for institutional operation constituted 92.42 percent of the state's investment. Funds provided to students for financial aid constituted 5.82 percent of the state's investment. Changes in the distribution of funds between institutional support and financial aid could affect access to post-secondary education and the distribution of enrollments between systems. Consequently, the nature of this relationship should be carefully considered and modified only on the basis of policy objectives rather than in an ad hoc manner.

Legislative Funding Policies

Legislative Appropriations Process

Before reviewing legislative funding policies, a brief description of the appropriations process may be helpful. Appropriations for collegiate systems and for AVTIs undergo different processes. Within the legislature, responsibility for recommending collegiate appropriations rests solely with the House Appropriations Committee and the Senate Finance Committee. Each committee reviews proposed systemwide budgets and considers requests for changes in funding levels. Although the committees seldom challenge existing activities and funding levels (the budget base), they scrutinize requests to expand or establish programs and activities. For example, the legislature may have to approve additional faculty positions and appropriate money for salaries in order to start or expand an instructional program. The legislature thus retains some direct control over the level of services offered by the collegiate systems.

Responsibility for recommending AVTI appropriations rests primarily with the education committees of the House of Representatives and the Senate. Because local school boards operate AVTIs, the education committees determine funding for AVTIs with financial aids to local school districts. In theory, the aids are entitlements to school districts to cover the operating costs of AVTIs. In reality, the State Department of Education apportions AVTI aids according to a process which the legislature has authorized the department to establish. The education committees of the legislature, however, do not review operating budgets, nor do they authorize changes in funding for specific activities. After each education committee has drafted its aids bill, it sends the bill to the respective appropriations committee in each house for the actual appropriation of funds. Neither the House Appropriations Committee nor the Senate Finance Committee reviews AVTI aids extensively. As a consequence, there is little coordination in funding of collegiate and vocational education and dramatically different policies result.

Enrollment Bulge Funding

In 1977, the legislature adopted the enrollment bulge policy for the collegiate systems. Anticipating that enrollments would decline after the early 1980s, the legislature decided essentially to freeze basic appropriations at 1977 levels. Except for inflationary increases and specially approved new items, there were to be no additional state funds for the systems.[1] The additional tuition revenue was deemed sufficient to meet the extra costs of the short-term increases in enrollments. Neither the length nor the size of the enrollment bulge to be funded in this manner was determined. The policy was not applied to area vocational-technical institutes.

Core Funding

For several biennia, the legislature has provided funding for Southwest State University and Metropolitan State University on a separate basis from the other campuses in the State University System. In the case of Southwest, the purpose of this special treatment has been to provide a level of support staff that is greater than its enrollment would otherwise justify. This minimal level, or core, is designed to accommodate up to 2000 full-time equivalent students as compared to recent enrollments of 1,500-1,800. No change in funding for support services will result from increases or decreases in enrollment when enrollment is below 2,000. Should enrollment ever rise above 2,000, Southwest would be treated in the same manner as other state university campuses. Metropolitan is a non-traditional, upper division institution. The legislature provides fixed funding for a range of enrollments. The legislature, however, has not provided core funding for the University of Minnesota or small community colleges. The University of Minnesota-Morris has enrollment levels below those of Southwest State

[1] The 1981 Legislature modified the bulge policy by appropriating funds to the State University System and the Community College System for enrollments exceeding certain levels. Further details about this change can be found on page six of this document or in Appendix A under separate cover.

"In 1979 the legislature approved a new funding policy for the AVTIs. The legislature substituted program-based funding for the previous enrollment-based funding."

University. Several small community colleges have enrollments below the level which would justify their staffing complements based on system staffing ratios.

Program Funding

In 1979, the legislature approved a new funding policy for the area vocational-technical institutes. The legislature substituted program-based funding for the previous enrollment-based funding. Starting in Fiscal Year 1981, AVTIs have received funds for instructional programs based on the cost of the programs. The purpose of this approach is to provide stable funding for vocational education. Changes in institutions' enrollments are considered, but they constitute a minor factor in the calculation of funding levels.[2] Appropriations for support services and other expenditures are determined independently of instructional costs based on historic expenditure patterns and institutional circumstances.

Special Appropriations

The legislature has been making special appropriations to the University of Minnesota and, to a much lesser degree, to the other public systems. These state specials are separate from regular operating budgets. They cover items which the legislature considers to be of short duration or high priority such as medical and agricultural research or women's intercollegiate athletics.

System Allocation Policies

The governing boards of the various post-secondary systems have the responsibility for allocating funds to individual campuses. The legislature makes most appropriations on a systemwide basis for governing boards to distribute at their discretion. Levels of discretion vary, and each governing board has its policies for allocating resources.

Community Colleges

The Community College System allocation policy consists of a series of complex formulae for allocating resources among its campuses. The State Board for Community Colleges has wide discretion in the allocation of its Maintenance and Equipment state appropriations. Many of the formulae are enrollment-based, while others are based on historical experiences. Some formulae also recognize economies of size by allocating fewer instructional resources per student over certain enrollment thresholds. A large institution would enroll more students than would a small institution in order to be allocated another faculty position. The State Board for Community Colleges recognizes an instructional and support core in its allocation methods to assure small campuses a minimum level of resources. Funding for the core has come at the expense of larger community colleges. In this manner, the Community College System internally maintains core funding for small institutions.

State Universities

Southwest State University and Metropolitan State University receive core funding as a result of legislative action. The State University Board has wide discretion in the allocation of its Maintenance and Equipment state appropriations. The remaining traditional campuses receive allocations of resources, except for physical plant, primarily in proportion to enrollments. Bemidji State University has received funding in addition to its allocation in order to avoid faculty layoffs. The State University Board recognizes the notion of core funding and staffing to a limited extent in support programs. It does not, however, have to fund the core through reallocation. After allocating a core of administrative positions to each institution, the system allocates additional administrative positions according to the proportion of systemwide enrollment at each traditional campus. Allocation of instructional positions to each campus, except Southwest State and Metropolitan State, reflects a fixed ratio of students to staff. Small campuses receive resources at the same rate as large ones. This allocation policy recognizes virtually no economies of scale, as large and small campuses experience the same treatment.

University of Minnesota

The University of Minnesota does not allocate resources to its various campuses and units on the basis of a formula. The Board of Regents has wide discretion in the allocation of its Operations and Maintenance state appropriations. Traditionally, the University appears to have made allocations by adjusting resources for instructional units in proportion to changes in enrollments and changes in amounts of available funding levels. Within the past two years, the University has attempted to reallocate resources internally to reflect changing priorities. The University of Minnesota Board of Regents does not explicitly maintain core funding internally, but a core program has been defined by the Morris campus.

Area Vocational-Technical Institutes

Area vocational-technical institutes receive state funds in the manner prescribed in statute. The State Board for Vocational Education has limited discretion in apportioning instructional aids to AVTIs because distribution of those aids, by statute,

[2] Funding levels are only affected by enrollment changes of more than 5 percent over two years. If the percent change in enrollments is more than 5 percent, funding is changed by that percent minus 5 percent. For example, if enrollments decline by 7 percent, funding is reduced by 2 percent.

"The bulge funding policy and reductions in state appropriations have had significant impacts on levels of instructional expenditures, state appropriations, and tuition revenue between FY 1977 and 1983."

must be related to previous instructional activity at each institution. The State Board can exercise more discretion in non-instructional aids. Allocation of instructional aids follows school district salary patterns for programs which have been offered previously. Allocation of other aids (support, supplies, heavy equipment) follows historic patterns of need plus special needs as they arise at individual institutions.

The Effects of the Bulge Policy and Appropriations Reductions

The bulge funding policy and reductions in state appropriations have had significant impacts on levels of instructional expenditures, state appropriations, and tuition revenue between Fiscal Years 1977 and 1983. Enrollment growth since 1977 has been significant, and it has not been uniform. The bulge policy was not applied to the AVTIs. The AVTI program funding policy, however, has limited growth in funding for instructional faculty since 1981. The effects of differing enrollment growth have been compounded by reductions in state appropriations. All four public systems have been subject to significant reductions in state appropriations as a result of Minnesota's fiscal crisis.

Enrollment growth since 1977 has not been uniform across the four public systems. Enrollments at the University of Minnesota have increased since 1977 from 48,570 full-time equivalents to 49,808 in 1983, or 2.5 percent. By comparison, regular enrollments in the community colleges have increased from 19,403 full-time equivalents to 23,679, or 22 percent. Enrollments in the state universities have increased from 33,625 full-time equivalents to 37,660 in 1983, or 12 percent. Enrollments in the AVTIs have increased from 30,534 average daily membership to 35,650 in 1983, or 17 percent.

In order to soften the fiscal effects of the bulge policy, the 1981 Legislature modified the bulge funding policy for the community colleges and state universities. The State University System received $1.5 million in F.Y. 1982 and $1.8 million in F.Y. 1983 for support of 2,270 FTE students in the first year of the biennium and 2,711 students in the second year. The Community College System received $861,900 in each year of the biennium to cover 1,617 FTE students. No supplementary funds were appropriated for the University of Minnesota.

During the last two years, there have been several reductions in state support for post-secondary education. These reductions have been offset, in part, by tuition increases. Thus, the 1977 budget base has been modified by two developments – the bulge funding policy and reductions in state appropriations. The data below present the compound effects of these two factors on the 1977 budget base for each system in current and constant dollars.

The data in the tables reveal that the public post-secondary systems have been affected in very different ways by state funding policies and enrollment trends since 1977. The major findings are noted below.

1. **Tuition revenue as a percentage of instructional expenditures has increased in all public systems. However, the proportion of instructional costs paid for by tuition varies. Among the collegiate systems, tuition as a percentage of instructional expenditures is lower in the State University System than in the community colleges and University of Minnesota. Tuition revenue constitutes a significantly lower percentage in the AVTIs. This is largely due to the fact that tuition charges for all students were not implemented in the AVTIs until 1979.**

TUITION AS A PERCENT OF INSTRUCTIONAL EXPENDITURES

Year	Community Colleges	State Universities	University of Minnesota	AVTIs
1977	25.7%	21.0%	24.2%	2.9%
1978	24.8	21.4	25.8	3.5
1979	24.1	20.2	25.7	12.6
1980	25.0	20.8	27.4	11.8
1981	29.2	23.5	27.4	11.9
1982	28.4	22.4	29.9	13.6
1983[e]	30.6	25.9	32.0	17.0

e = estimated.

2. **In constant dollars, the total instructional budget in the state universities and community colleges has increased between 1977 and 1983 and decreased for the University of Minnesota and the AVTIs.**

"Instructional expenditures per student have declined in constant dollars in all systems, but unevenly."

TOTAL INSTRUCTIONAL EXPENDITURES IN CONSTANT DOLLARS (MILLIONS)

Year	Community Colleges	State Universities	University of Minnesota	AVTIs
1977	$33.8	$70.6	$150.0	$78.0
1978	34.8	73.4	147.5	76.0
1979	34.6	74.9	146.9	78.2
1980	35.6	73.5	145.9	78.6
1981	34.3	70.3	142.8	76.7
1982	37.0	73.4	136.0	73.0
1983[e]	37.6	75.2	136.0	68.6

e = estimated.

3. State appropriations for instruction have increased slightly in the community colleges, remained stable in the state universities, and declined significantly in the University of Minnesota and AVTIs.

STATE APPROPRIATIONS FOR INSTRUCTION IN CONSTANT DOLLARS (MILLIONS)

Year	Community Colleges	State Universities	University of Minnesota	AVTIs
1977	$25.1	$55.8	$113.7	$70.1
1978	26.2	57.7	109.5	67.4
1979	26.3	59.8	109.1	57.6
1980	26.6	58.2	108.9	56.1
1981	24.3	53.8	103.0	62.9
1982	26.5	56.2	95.4	63.1
1983[e]	26.1	55.7	92.5	56.8

e = estimated.

4. Expenditures per student in constant dollars have declined in all four post-secondary systems between 1977 and 1983. However, the percentage decrease has varied considerably.

INSTRUCTIONAL EXPENDITURES PER STUDENT IN CONSTANT DOLLARS

Year	Community Colleges	State Universities	University of Minnesota	AVTIs
1977	$1,742	$2,100	$3,088	$2,554
1978	1,791	2,197	3,125	2,420
1979	1,846	2,225	3,131	2,522
1980	1,729	2,115	3,043	2,478
1981	1,549	1,893	2,881	2,232
1982	1,569	1,921	2,738	2,087
1983[e]	1,588	1,997	2,730	1,924

e = estimated.

In summary, the effects of the bulge policy and the appropriation reductions since 1977 are:

1. **Tuition revenue has accounted for an increasing share of the cost of instruction.**
2. **The state share of expenditures for instructional services has declined in all systems, but has declined unevenly.**
3. **Instructional expenditures per student have declined in constant dollars in all systems, but unevenly.**

The bulge funding policy by itself would have affected expenditures and revenues in a similar, but less pronounced, manner in the collegiate systems. The program funding policy combined with significant enrollment growth in the AVTIs has had a similar effect on that system. The reductions in state appropriations have significantly exacerbated the trends.

PROJECTED RESOURCE REQUIREMENTS OF CURRENT FUNDING POLICIES

The Task Force has reviewed resource projections for 1982 through 2001 based on current funding policies. The projections show staffing, expenditures, and revenue for each public post-secondary system and institution. The methodologies and assumptions incorporated in the projections, summary tables, and a description of the results appear in Appendix A. A summary of the results is presented here.

Assessing the long-range consequences of maintaining current funding policies has been the object of these projections. The projections reveal several patterns. First, the funding reductions and tuition rate increases of the 1981-83 biennium have significantly altered the pattern of funding post-secondary education during the projection period. Operating expendi-

"The bulge policy would hold state appropriations stable until enrollments slip below 1977 levels. The result would be increasing expenditures per student in each collegiate system until enrollments slip below 1977 levels."

tures and state appropriations per student would decline substantially in all systems. Tuition rate increases would result in significant increases in the percentage of operating expenditures which tuition revenue constitutes. And state appropriations per student for the University of Minnesota and the Community College System would not exceed 1980 levels during the projection period.

Second, in the collegiate systems which have enrollment-related funding, the decline in resources would be of less magnitude than anticipated declines in enrollment. One reason for this is that many expenditures are not related to enrollments and would, therefore, remain stable. Another reason is that when enrollments begin to decline, the systems will lose only tuition revenue and supplemental appropriations. The bulge policy would hold state appropriations stable until enrollments slip below 1977 levels. The result would be increasing expenditures per student in each collegiate system until enrollments slip below 1977 levels. For individual institutions, however, the situation likely would vary. Large community colleges would have their resources withdrawn in proportion with enrollments. Small community colleges would not have resources withdrawn in proportion with enrollments because of minimum allocations in the system allocation policies. The result would be greater expenditures per student at small community colleges than at larger ones. Another aspect of this would be richer staff to student ratios at smaller community colleges. Larger community colleges, thus, would bear most of the burden, in effect giving up resources to maintain smaller institutions.

Finally, the situation for the area vocational-technical institutes would be somewhat different from the collegiate systems. The current policy of program-based funding would provide relatively stable levels of resources to the AVTIs despite declining enrollments. In fact, lower tuition revenue resulting from declining enrollments would require additional state resources to maintain stable funding levels. Some AVTIs are projected to experience rising enrollments. Because of stable funding, however, these AVTIs would not experience matching increases in resources. As a result, expenditures per student at growing AVTIs would decline while expenditures per student would increase at AVTIs with falling enrollments.

"The primary virtue of any funding method should be its suitability for estimating resource requirements and then distributing actual resources. To a considerable degree, circumstances such as enrollment trends may determine what is suitable."

III. ALTERNATIVE FUNDING POLICIES AND PROJECTED EFFECTS

The Task Force has examined alternative funding policies. These include policies not now used in Minnesota as well as the extension to other systems of policies which are used in one or more of the state's post-secondary systems. This chapter contains a discussion of the environment that will affect funding for post-secondary education in the future. Next, there is a description of the four alternative funding policies which the Task Force examined in detail – average cost funding, fixed and variable cost funding, core funding, and program funding. The chapter concludes with summaries of the projected resource requirements of the alternative funding policies.

THE ENVIRONMENT: PROSPECTS FOR POST-SECONDARY EDUCATION

Over the next 15 years post-secondary education in Minnesota faces the prospect of declining enrollments and resources. The two are inextricably related. Enrollments are projected to decline because there will be fewer 18-22 year olds, the traditional pool of post-secondary students. At the very least, fewer students will mean less tuition revenue. Beyond that, lower enrollments will weaken post-secondary education's claim to public resources. Government funds already have become scarcer due to economic conditions, federal policies and public sentiment, and there is little evidence of a major turnabout to restore previous levels of government activity. In the coming years, special programs, transportation, and environmental activities will compete with education for state funds.

The situation facing post-secondary education calls for an assessment of funding methods. If the state relies too greatly on enrollment-related funding while attempting to maintain existing services, it risks providing insufficient support to institutions with low enrollments. The primary virtue of any funding method should be its suitability for estimating resource requirements and then distributing actual resources. To a considerable degree, circumstances such as enrollment trends, may determine what is suitable.

A method that operates well during an era of expansion may function poorly during an era of contraction. During periods of growth and prosperity, issues such as institutional size, mission, performance and operating efficiency may seem unimportant in the race to meet burgeoning demands for education. When fiscal resources and demand dwindle, however, such matters may become very important in determining levels of support for post-secondary education.

REVIEW OF ALTERNATIVE POLICIES

Funding policies for post-secondary education essentially are rules by which resources are made available for the delivery of educational services. These rules may apply to any or all of the three major phases of the funding process. The first phase is the formulation of a request for resources by the post-secondary institutions and systems. The second phase is the determination of actual funding levels by the legislative and executive branches of state government. The third phase is the allocation of appropriated resources to the institutions providing educational services.

Since the 1950s, funding for post-secondary education increasingly has been related to measurable levels of educational activity or performance. Measures of activity may include enrollment, number of programs, and identifiable improvements in educational effectiveness or operational efficiency. Three categories of funding policies are the subject of the following discussion. Two of the categories, average cost funding and marginal cost, are related directly to enrollments. There are variations of each policy. The other category is program funding. Some of the policies are or were in use in Minnesota. Others are in use elsewhere. The choice regarding funding policies, thus, may include the extension of existing policies to all systems as well as the adoption of new policies.

Average Cost

Funding on the basis of average costs provides a specified amount of money for each enrolled student or full-time equivalent student. This approach rests on three assumptions. First, the cost per student for providing educational services may be derived or estimated prior to the calculation of aggregate costs. Costs and resource

"Average cost funding may incorporate recognized differences among post-secondary systems on the basis of mission or other characteristics."

requirements are supposed to be built upon the basis of actual or anticipated enrollments. Second, the cost of services may be allocated equally to every student. Each institution, regardless of academic program mix, supposedly is provided with the same amount of resources per student by the state. Third, the cost per student is constant regardless of institutional size. Within the same system, for example, the cost per student at an institution with an enrollment of 10,000 would be the same as the cost per student at an institution with an enrollment of 1,000. Average cost funding does not recognize economies of size, minimum levels of support for small institutions, or fixed costs.

Funding may incorporate recognized differences among post-secondary systems on the basis of mission or other characteristics. Thus, research universities, offering programs from lower division instruction to professional training and advanced research, would incur high average total costs in comparison to community colleges which essentially are limited to lower division instruction. Variations in funding levels per student for these different institutions may reflect functions and costs as well. Two variations of average cost funding are described below.

Average Total Cost

Funding on the basis of average total cost provides resources for every student based on the costs of all services and activities occurring at educational institutions. These services and activities may include instruction, research, academic support services (e.g., libraries), student support services (e.g., counseling), public service, institutional support (e.g., president's office), and physical plant operations. The calculation of resources to be provided to post-secondary systems or institutions involves multiplying the average cost per student by the number of students.

Differential Average Costs

Funding on the basis of differential average costs provides resources for every student based on the separate cost of each program, service, and activity occurring at educational institutions. Separate cost figures may be derived for instruction, research, academic support services, student support services, public service, institutional support, and physical plant. Within these broad areas, costs may be calculated for each program or function. There could be separate costs designated for lower division, upper division, and graduate instruction; for business, liberal arts, and nursing programs; for admissions and records, student counseling and foreign student services.

This policy, in effect, combines program-based and average cost approaches to funding. The calculation of resources to be provided to post-secondary systems or institutions occurs in three phases. First, the cost per student for each program and function is determined. The greater the number of separately funded programs and functions, the greater will be the number of distinct costs which must be computed. Second, the cost per student for each program or function is multiplied by the number of students in the particular program or function. This yields a total cost for each activity. Third, the total costs for each program and function are added together. The result is estimated total operating costs which becomes the basis for a funding request.

Marginal Costs

Funding on the basis of marginal costs rather than average costs usually results in the appropriation of less money per student as enrollments increase and more money per student as enrollments decrease. With a marginal approach, resources increase or decrease only to the extent that total cost would change as a result of having to educate more or fewer students. For example, an institution with 1,000 students might require $1,000,000 to operate. The addition or subtraction of one student might only require a change in expenditures for supplies amounting to $100. This marginal cost of $100 would be the amount provided to or withdrawn from the institution using marginal funding. Funding by average total cost, in contrast, would result in a change of $1,000 for each student ($1,000,000 divided by 1,000 students).

Marginal funding implicitly assumes the existence of fixed and variable costs. Marginal funding essentially applies only to variable costs. Fixed costs are the start-up and on-going costs that must be incurred regardless of enrollments. Basic administrative functions and physical plant operations must be in place whether an institution has 1,000 or 10,000 students. Variable costs are the costs that change at the same rate or by the same amount for each student.

Fixed and Variable Costs

Funding on the basis of fixed and variable costs involves separate support for each type of cost described above. Offering any educational service at all would require full funding of those costs defined as fixed. Provision of other resources would depend on costs generated by enrollments.

The variable portion would, in reality, reflect average variable costs. It would resemble average total costs in that a specified amount of resources would be provided for each student. Average variable costs, however, would be less than average total costs because the fixed items already would have been covered.

"For all systems, an average cost funding policy would provide fewer total resources than any alternative or current funding policy."

Core Costs

Core funding requires that small institutions must be sustained with a prescribed minimum level of resources. This level of support is based on a minimum breadth of instructional and support activities deemed necessary for fulfilling an institution's mission. The instructional and support core, in effect, may be the fixed cost of an institution capable of servicing a specified number of students. At or below this enrollment, the institution would be assured of the prescribed amount of resources. Enrollments above that level would generate additional resources based on the funding policy in existence for other institutions.

The Coordinating Board retained a consultant to develop a working definition of a core staffing level for a small baccalaureate college. As part of an earlier study, a similar report was prepared for two-year transfer program colleges. These reports are contained in Appendix D of this document, which is available under separate cover.

Program Funding

Program funding provides resources based on the cost of individual instructional programs and, perhaps, support activities. All costs covered by this funding policy may be viewed, in effect, as fixed. There is no recognized variation in cost based on enrollment. Another way to view it is a core funding procedure for every program. Each program is a self-contained unit to receive either full funding or no funding at all. Partial support would be considered inadequate. Changes in enrollment may be accommodated by altering the number of fully funded programs. Area vocational-technical institutes are operating under program funding for instruction.

PROJECTED RESOURCE REQUIREMENTS OF ALTERNATIVE FUNDING POLICIES

Projections of resource requirements under four alternative funding policies were reviewed by the Task Force. The projections estimated staffing, expenditures, and revenue based on the alternative policies for applicable systems and institutions. The methodologies and assumptions incorporated in the projections, summary tables, and a description of the results appear in Appendix A under separate cover. A summary of the results is presented here.

The collegiate systems do not receive full state support for enrollments above the 1977 base. Consequently, current funding policies were simulated until system enrollments declined below the base. The first year that system enrollments declined below 1977 levels became the base year for the alternative funding policy. Since the AVTIs were not subject to the bulge policy, alternative funding policies were implemented in this system in the year after peak projected enrollment levels.

The alternative funding policies were simulated under each of two tuition policies. Current tuition policy retains tuition rates at their constant dollar 1983 levels. The alternative simulates the Coordinating Board's recommended tuition policy, but sets tuition revenue equal to 33.33 percent of operating expenditures in the collegiate systems and 16.67 percent of operating expenditures for the AVTIs.

Consequences of Alternative Funding Policies

Projections of resource requirements for alternative funding policies have been prepared to allow the Task Force to compare the effects of alternative funding policies with those of current funding policies.

Average Cost Funding

Average cost funding would vary all staffing and expenditures proportionately with enrollments. Staffing ratios and levels of expenditures per student would remain stable regardless of enrollment levels under average cost funding. If the policy is implemented at the institution level, it would vary resources with enrollments for all institutions in a similar manner. Differences between institutions in expenditures per student and staffing ratios would be those which existed in the base year. For all systems, an average cost funding policy would provide fewer total resources than any alternative or current funding policy.

When compared to current funding policies for the AVTIs, average cost funding would provide the most dramatic contrast in resource requirements. Current policies for the AVTIs provide stable staffing and funding. Required state appropriations are lower with average cost funding than with any other funding policy.

Fixed and Variable Cost Funding

A fixed and variable cost policy would provide stable staffing and funding for fixed activities but change staffing and funding for remaining activities proportionately with enrollments. In periods of enrollment decline, such a policy would cause increases in expenditures per student as a result of the stable funding for fixed activities. In periods of enrollment

"Since it provides additional resources to small institutions only, core funding would increase staffing and funding disparities between small and large institutions."

increases, expenditures per student would decline. Thus, a fixed and variable cost funding policy would increase disparities between small institutions and large institutions. The collegiate systems would receive more resources under fixed and variable cost funding than under current funding policies. After enrollments decline below 1977 levels, current policies would withdraw resources from the collegiate systems more directly in proportion with enrollments than would fixed and variable cost funding. The AVTIs would receive fewer resources under a fixed and variable cost funding policy. The current AVTI funding policy would provide stable funding while a fixed and variable policy would withdraw variable resources as enrollments decline. Consequently, a fixed and variable cost policy would require higher levels of appropriations for the collegiate systems but lower levels of appropriations for the AVTIs.

Program Funding

Program funding would provide collegiate systems the stable staffing and funding levels of the current funding policy for the AVTIs. The result would be significant decreases in staffing ratios and significant increases in expenditures per student as enrollments decline. Disparities in staffing and funding between large and small institutions would become larger under program funding than under any other funding policy for the collegiate systems. The collegiate systems would receive more resources under program funding than under any other funding policy. Program funding would require higher levels of state appropriations than any other funding policy.

Core Funding

Core funding would provide small institutions with a fixed level of resources regardless of enrollment levels. The resources would be sufficient to enable the institution to offer a minimum array of instructional and support programs required by its mission. Such a policy would cause declining staffing ratios and rising expenditures per student in institutions where it was implemented. Since it provides additional resources to small institutions only, core funding would increase staffing and funding disparities between small and large institutions. Core funding would provide slightly higher staffing expenditures and appropriation levels than current funding policies for the Community College System.

"Every funding method has inherent characteristics that affect the way in which resources are provided, distributed, and used. These, in turn, affect educational activities and outcomes."

IV. EVALUATION OF CURRENT AND ALTERNATIVE FUNDING POLICIES

The Task Force evaluated current and alternative funding policies based on the policies' projected resource requirements and the extent to which each policy satisfied a set of evaluation criteria. This chapter contains a description of the criteria, the evaluations of current and alternative funding policies, and a discussion of the costs of alternative policies.

CRITERIA

Funding methods are mechanisms with which the state seeks to attain its goals for post-secondary education.[1] Every funding method has inherent characteristics that affect the way in which resources are provided, distributed, and used. These, in turn, affect educational activities and outcomes.

The Task Force defined five criteria, consistent with the goals described above, to guide its evaluation of state funding policies. The criteria include:

1. **Providing Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems in an equitable manner.

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, and program mix and that all costs are variable in the long run but some costs are fixed in the short run.

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

Each funding policy was scored on each criterion. Possible scores ranged from 0 to 3. A score of 0 meant that the policy did not satisfy the criteria. At the other extreme, a score of 3 meant that the policy fully satisfied the criteria. The first and third criteria were judged to be significantly more important than the others. The amount of resources a system receives and how these resources are managed by the system are important factors in how a system fulfills its mission. Innovative resource management may enable systems to maintain and even improve the quality of their services despite constrained resources. There are limits, however, to the use of resource management. Systems must have a basic level of funding which is sufficient to enable them to fulfill their missions. Consequently, scores on the first and third criteria were doubled. A score of two, for example, was converted to four.

EVALUATION OF FUNDING POLICIES

This section contains eight evaluation sheets and a summary of the evaluations. Current funding policies were evaluated separately for each system because of their variety. Each alternative funding policy was evaluated for all systems.

[1] Appendix B, under separate cover, describes the Coordinating Board's goals to guide the investment of public resources in post-secondary education.

EVALUATION

"The instructional portion of the AVTI funding policy does not recognize changing cost patterns as they relate to enrollment changes. Instructional costs are essentially fixed given projected enrollment patterns."

Evaluation of the Current Funding Policy for the Area Vocational-Technical Institutes

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   State funding for instruction is not related to enrollments. The State Board has no discretion for allocation of instructional aids because the formula is specified in statute. The Board has some discretion in allocation of non-instructional aids, which have been partially related to enrollments.

Evaluation Score: 2

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   Tuition revenue is between 11 and 13 percent of instructional expenditures as opposed to a minimum of 25 percent in the collegiate systems. Legislative committees do not review operating budgets or authorize specific changes in funding for the AVTIs. In comparison, the legislative appropriations committees do review operating budgets and authorize changes in funding for the collegiate systems.

Evaluation Score: 0

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   The instructional portion of the AVTI funding policy does not recognize changing cost patterns as they relate to enrollment changes. Instructional costs are essentially fixed given projected enrollment patterns. Non-instructional aids have been partially related to cost patterns. Both institutions with increasing and declining enrollments receive fixed levels of instructional support.

Evaluation Score: 2

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   No explicit incentives exist for providing or measuring the quality of services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   The funding formula does not relate resources to outputs or enrollments. It relates resources to past expenditures. Consequently, there are few incentives for increasing productivity.

Evaluation Score: 1

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 5

EVALUATION

"The State Board for Community Colleges has discretion in the allocation of resources and the organization of institutions and programs and has used these powers to formulate allocation and management policies to respond to changing conditions and needs."

Evaluation of the Current Funding Policy for the Community College System

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Prior to 1977, state funding was related to enrollments. The bulge policy provided no additional state funding for enrollments beyond the 1977 base. The Board has discretion in the allocation of resources and the organization of institutions and programs and has used these powers to formulate allocation and management policies to respond to changing conditions and needs.

Evaluation Score: 6

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   Legislative funding policies for the community colleges have not recognized the costs of operating many small institutions. The community colleges operate vocational and occupational programs. Those programs have not been funded on the same basis as those in the AVTIs.

Evaluation Score: 1

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   Funding in the community colleges for base enrollments does not change with enrollments. The bulge funding policy recognizes cost patterns related to small increases in enrollments over short time spans. Internal allocation procedures recognize that costs vary with factors such as size and program mix. However, the enrollment levels beyond which the bulge policy must be modified have not been defined.

Evaluation Score: 4

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   No explicit incentives exist for providing or measuring the quality of services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   Although there are no explicit incentives for increasing productivity, resources can be used for this purpose without penalty or loss of resources.

Evaluation Score: 1

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 12

EVALUATION

"While instructional costs are higher in the State University System, tuition rates paid by students in the system are comparable to rates in the community colleges."

Evaluation of the Current Funding Policy for the State University System

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Prior to 1977, state funding was related to enrollments. The bulge policy provides no additional state funding for enrollments above the 1977 base. The Board has discretion in the allocation of resources and the organization of institutions and programs. The Board has asked that Southwest State University and Metro State University be placed on separate funding basis. Consequently, the Board has not had to make internal reallocation decisions to address the special needs of these institutions.

Evaluation Score: 2

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   Legislative funding policies recognize the unique costs of Southwest State University and Metro State University. While instructional costs are higher, tuition rates paid by students in the system are comparable to rates in the community colleges.

Evaluation Score: 1

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   State funding is related to enrollments up to the 1977 base. The bulge policy recognizes cost patterns related to small enrollment increases over short time periods. The application of the bulge funding policy has not been defined with respect to the size and duration of bulge enrollments. Internal allocation policies for instruction do not recognize economies of scale. However, a core program has been defined for support services.

Evaluation Score: 4

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   No explicit incentives exist for providing or measuring the quality of services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   Although there are no explicit incentives for increasing productivity, resources can be used for this purpose without penalty or loss of resources.

Evaluation Score: 1

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 8

EVALUATION

"The Board of Regents has discretion in the allocation of resources and the organization of University programs. The internal planning process has recommended reallocations based on university-wide priorities."

Evaluation of the Current Funding Policy for the University of Minnesota

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Prior to 1977, state funding was related to enrollments for instructional programs. The bulge policy provided no additional state funding for enrollments above the 1977 base. The Board of Regents has discretion in the allocation of resources and the organization of University programs. The internal planning process has recommended reallocations based on university-wide priorities.

Evaluation Score: 4

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   Legislative funding policies have not recognized the costs of operating Morris. Revenue from tuition changes will be more than 31 percent of instructional costs in F.Y. 1983, which is higher than any other system.

Evaluation Score: 1

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   State funding is related to enrollments up to the 1977 base. The bulge policy recognizes the cost pattern related to small enrollment increases over a short time period. Tuition rates and internal allocation policies recognize that costs vary with factors such as size and program mix.

Evaluation Score: 4

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   No incentives exist for providing or measuring the quality of services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   Although there are no explicit incentives for increasing productivity, resources can be used for this purpose without penalty or loss of resources.

Evaluation Score: 1

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 10

EVALUATION

"It would be necessary (under average cost funding) for the governing board to have complete discretion in allocation decisions. Clearly, this policy would provide a strong incentive for governing boards to manage resources in accordance with program priorities."

Evaluation of the Average Cost Funding Policy for All Public Systems

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Average cost funding would base all funding directly on enrollments. As enrollments decrease, state funds would be reduced proportionately. It would be necessary for the governing board to have complete discretion in allocation decisions. Clearly, this policy would provide a strong incentive for governing boards to manage resources in accordance with program priorities.

Evaluation Score: 6

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   Equitable implementation of this policy would require that all budget review and appropriation decisions be placed under the same committee in each legislative body. In order to ensure equitable application, this policy should be coupled with a tuition policy which relates tuition revenue to a uniform percentage of instructional costs, and adjustments for effects of the bulge policy and recent funding reductions.

Evaluation Score: 3

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   Average cost funding does not recognize changing cost patterns or differences related to size. It ignores fixed costs in the short run and assumes that all institutions, regardless of size or enrollment pattern, have similar costs. Average cost funding could be designed in a way to recognize the mix of programs in a system or institution.

Evaluation Score: 2

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   No specific incentives exist in this alternative to encourage quality. Budget reductions do create an environment in which priorities must be established to guide allocation decisions. As such, it would be possible to reallocate resources to high priority programs, thereby encouraging the development of high quality programs.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   If funding is enrollment related and declines in proportion to enrollments, and if governing boards have discretion to allocate funds, there would be an incentive to implement productivity-increasing measures. However, collective bargaining agreements may inhibit such changes.

Evaluation Score: 2

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 13

28

EVALUATION

Fixed and variable funding specifically addresses the problem of funding changing cost patterns caused by fluctuating enrollments . . . by distinguishing between costs that vary with enrollments and those which do not."

Evaluation of the Fixed and Variable Funding Policy for All Public Systems

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Fixed and variable funding relates a significant portion of funding directly on enrollments. Costs not related to enrollments are fixed. Therefore, as enrollments decline funding would be reduced, but at a slower rate. Incentives for innovative resource management would exist under this policy. However, since some costs are fixed, incentives would not be as great as under average cost funding.

Evaluation Score: 2

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   This policy can be equitably implemented in all systems providing (1) it is a comprehensive tuition policy, (2) budget review decisions are placed under one committee in each house of the legislature, and (3) the effects of the bulge policy and recent funding reductions are accounted for.

Evaluation Score: 3

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   Fixed and variable funding specifically addresses the problem of funding changing cost patterns caused by fluctuating enrollments. It does this by distinguishing between costs that vary with enrollments and those which do not. The policy also relates funding to the mix of programs in each system.

Evaluation Score: 6

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   Fixed and variable funding does not provide explicit incentives for high quality services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   Since fixed and variable funding provides sufficient resources to accommodate changing cost patterns caused by declining enrollments, there is little incentive to increase productivity.

Evaluation Score: 0

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 11

EVALUATION

"If the program funding policy were implemented in a manner which accounted for the effects of the bulge policy, recent budget reductions and tuition rates, it would be an equitable funding method."

Evaluation of the Program Funding Policy for All Public Collegiate Systems

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Program funding would provide a fixed level of support regardless of the number of students served. While governing boards would continue to have discretion in allocating funds, program funding would provide little incentive for reallocation and innovative resource management. In a period of declining enrollments, this funding policy would provide systems with increased resources per student and, consequently, enable systems to begin new or improved programs.

Evaluation Score: 0

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   If the program funding policy was implemented in a manner which accounted for the effects of the bulge policy, recent budget reductions and tuition rates, it would be an equitable funding method. It is assumed that the appropriations process would be consolidated under the same committee in each house and would be uniformly applied to all systems.

Evaluation Score: 3

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   Program funding does take into account different program costs. If enrollments decline by more than 5 percent in two years, funding would be reduced. However, enrollment projections suggest that this would not occur very often. Consequently, this policy does not recognize changing cost patterns.

Evaluation Score: 2

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   Under this policy, systems would have an opportunity to reallocate excess program funding to enhance quality, although there are no explicit incentives to do so.

Evaluation Score: 1

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   This funding method does not provide any incentives for increased productivity because funding levels are fixed.

Evaluation Score: 0

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 6

EVALUATION

"At some point, enrollments decline below the level at which resources can be provided on the basis of the number of students served. Core funding addresses this by providing a minimum resource base."

Evaluation of the Core Funding Policy for the Two- and Four-Year Collegiate Institutions

Criteria for evaluation of funding alternatives:

1. **Provide Incentives for Innovative Resource Management.** The funding method should encourage governing boards to anticipate changing needs for education and training and to develop procedures for the reallocation of resources based on priorities.

   Minimum core funding would provide small collegiate institutions with a sufficient resource base to offer a program consistent with their stated mission, regardless of the number of students enrolled. Since resources are fixed at these institutions, no incentives exist for innovative resource management. The governing board presumably would not have discretion to reallocate core resources to other institutions.

Evaluation Score: 0

2. **Provide Resources in an Equitable Manner.** The funding method should provide funds to systems and institutions in an equitable manner.

   There are small institutions in all three collegiate systems. If a policy was established to provide resources for a core program in all of these institutions, it would probably require additional state funding in order to assure equity. It would not be equitable to fund core programs out of resources from larger institutions because small institutions are not equally distributed in all systems.

Evaluation Score: 3

3. **Recognize Differing Cost Patterns.** The funding method should recognize that costs differ based on factors such as size, mission, program mix and that all costs are variable in the long run, but some costs are fixed in the short run.

   At some point, enrollments decline below the level at which resources can be provided on the basis of the number of students served. Core funding addresses this by providing a minimum resource base.

Evaluation Score: 6

4. **Encourage Quality.** Funding policies should contain explicit incentives for providing high quality services as demonstrated by clearly identifiable measures of performance.

   While this policy may protect minimum program standards, it does not contain explicit incentives for providing high quality services.

Evaluation Score: 0

5. **Encourage Increased Productivity.** Funding policies should include incentives for increasing productivity.

   This policy does not encourage increased productivity.

Evaluation Score: 0

Key to Evaluation Scores:

0	1	2	3
Does Not Satisfy Criteria	Satisfies Criteria to a Small Degree	Satisfies Criteria to a Large Degree	Fully Satisfies Criteria

Total Evaluation Score: 9

"Average cost funding directly relates state appropriations to enrollments . . it provides a strong incentive for governing boards to develop procedures for the reallocation of resources based on priorities within their respective systems."

TABLE 1
SUMMARY OF EVALUATION SCORES: CURRENT AND ALTERNATIVE FUNDING POLICIES

	Current Funding Policies				Average Cost Funding	Program Funding	Fixed/ Variable Funding	Core Funding
Criteria	AVTIs	Community Colleges	State Universities	University of Minnesota	All Systems	Collegiate Systems	All Systems	Collegiate Systems
1. Management Incentives	2	6	2	4	6	0	2	0
2. Equity	0	1	1	1	3	3	3	3
3. Cost Patterns	2	4	4	4	2	2	6	6
4. Encourage Quality	0	0	0	0	0	1	0	0
5. Increase Productivity	1	1	1	1	2	0	0	0
TOTAL EVALUATION SCORE	5	12	8	10	13	6	11	9

Key to evaluation scores:
0 — does not satisfy criteria
1 — satisfies criteria to a small degree
2 — satisfies criteria to a large degree
3 — fully satisfies criteria

Criteria 1 and 3 were judged to be twice as important as the other criteria. Therefore, these scores were multiplied by 2.

SUMMARY OF FUNDING POLICY EVALUATIONS

The summary of evaluations presented below is organized by the criteria used to evaluate each funding alternative. The summaries are intended to highlight (1) aspects of current policies which both satisfy and fail to satisfy the criteria, and (2) those funding alternatives which best satisfy each criterion. Table 1 contains a summary of the evaluation scores.

Innovative Resource Management

Current funding policies vary significantly across systems, resulting in disparate capacities for innovative resource management. Funding policies for the AVTIs and the state universities provide fewer incentives for innovative resource management than funding policies for the other public systems. Program funding for the AVTIs fails to provide incentives for resource management because it is based on prior expenditures rather than enrollments. Moreover, allocation procedures for instructional resources are specified in statute, which undermines the management discretion of the governing board.

Since 1978, the State University Board has received separate funding for Southwest State University. The Board also has received special funding for Metro State University. In F.Y. 1982, additional legislative support was received for Bemidji State University. As a result of these funding decisions, the State University Board has not had to reallocate internally to support these institutions.

The State Board for Community Colleges, however, has made allocation decisions to support small and high-cost institutions out of existing resources. In response to limited resources, the Community College Board also has reorganized and consolidated five small institutions serving northeastern Minnesota.

The Board of Regents of the University of Minnesota has developed an extensive internal planning process to guide budgeting. The process has been used by the Regents to reallocate funds based on program priorities.

Of the alternative funding policies, average cost funding best satisfies the resource management criterion. Average cost funding directly relates state appropriations to enrollments. By limiting resources in this manner, average cost funding provides a strong incentive for governing boards to develop procedures for the reallocation of resources based on priorities within their respective systems.

Although fixed and variable cost funding would provide sufficient resources to systems for supporting fixed costs, it would reduce resources

"Current funding policies for post-secondary education have not been equitably applied to all systems."

for those costs which vary with enrollments. Consequently, fixed and variable cost funding would provide some incentives for innovative resource management.

Since funding is set at a base level for programs and does not change as enrollments decline, program funding would provide little incentive for innovative resource management. Excess funding would, however, provide governing boards with an opportunity to respond to changing educational needs.

Core funding is intended to preserve minimum educational services at small institutions. Resources would be provided on the basis of program requirements, not the number of students served. If funding for such a policy were provided on a separate basis, governing boards would not be required to maintain and support these institutions with existing resources. As such, there are no incentives for innovative resource management. If governing boards were required to support core programs out of existing resources, incentives for innovative resource management would exist.

Equity

Current funding policies for post-secondary education have not been equitably applied to all systems. The policies were developed in a period of enrollment growth and growing state revenue. As a result, it was possible to provide additional resources to post-secondary education as problems arose. This resulted in the development of a variety of funding policies that are not uniformly applied to all systems. Conditions have changed. State revenue is no longer growing as fast as projected expenditures. Enrollments are projected to decline, in the aggregate, in post-secondary education by 20 to 24 percent by the mid-1990s. Problems which occurred on an isolated basis in the past will become more widespread in the future. It will no longer be possible to address these problems on an individual basis. Comprehensive and equitable policies will have to be developed for all systems and institutions.

The legislature uses two different procedures for budget review and appropriations decisionmaking for post-secondary education. Appropriations' decisions for the AVTIs essentially are made by the education policy committees of the House and Senate. Appropriations' decisions for the public collegiate systems are made by the House Appropriations Committee and Senate Finance Committee. The nature and extent of these reviews are different. The instructional appropriation formula for the AVTIs specified in statute and appropriations are an entitlement based on the formula. Appropriation levels for the collegiate systems are determined by a review of proposed system budgets with close scrutiny of requested increases. These variations in the appropriations' process have resulted in differential application of state funding policies to the post-secondary systems. The situation has inhibited the development of comprehensive and equitable policies for public post-secondary education.

The state does not currently have a formal policy regarding tuition levels in public post-secondary systems. In the absence of a tuition policy, the state has provided different levels of subsidy to the public post-secondary systems. Under current practices, tuition revenue as a percent of instructional expenditure ranges from 17 percent in the AVTIs to 32 percent at the University of Minnesota in F.Y. 1983.

During the last three years, tuition was raised in response to mandated budget reductions. As enrollments decline, so will tuition revenue. There will be additional pressure to raise tuition in order to offset revenue losses from declining enrollments. Equity considerations suggest a comprehensive tuition policy under which systems would receive similar proportions of state subsidy for instructional programs.

The bulge policy was implemented in 1977 to cope with temporary enrollment growth in the public collegiate systems. The policy provided no state funds for enrollments above 1977 levels. The AVTIs were not subject to this policy even though they faced a similar enrollment pattern.

To promote access, the state of Minnesota has built an extensive array of public post-secondary education institutions. Many of these institutions are small by national standards and will become smaller as enrollments decline. At some point, enrollments in these institutions will go below the level which justifies sufficient resources to offer a minimum academic program. If these institutions are to continue to provide basic services, they must have a minimum resource base which is fixed regardless of enrollment levels. Although the state has implemented such a core funding policy, it has not done so consistently. For example, Southwest State University receives a fixed legislative resource base while the University of Minnesota-Morris, an institution of comparable size, does not. Further, small community colleges which are confronted with problems similar to Southwest are not provided with a separate legislative funding base. This requires the Community College Board and the Board of Regents to allocate funds internally in order to provide sufficient resources to these small campuses. Equity considerations would suggest that core funding should be applied to all systems or none.

Each alternative to current funding policies can attain favorable levels of

"Average cost funding, by reducing funding directly with enrollments, provides an indirect but strong incentive to increase productivity."

equity if there are adjustments for inequalities in the current bulge policy, tuition policy, and recent reductions for post-secondary education.

Recognition of Cost Patterns

In 1977, the legislature adopted the bulge funding policy for the collegiate systems of post-secondary education. This policy recognized the temporary enrollment growth facing collegiate institutions would be followed by more than a decade of declining enrollments. Consequently, collegiate systems were required to fund enrollment growth above 1977 levels out of additional tuition revenue. No permanent state funding has been provided. Thus, the bulge policy correctly recognized that the marginal costs associated with temporary enrollment growth are less than average costs. When the policy was adopted, however, neither the duration of the policy nor the magnitude of the enrollment bulge was specified. In fact, enrollment growth has exceeded expectations by a sizable margin. In addition, the budget policy may have been undermined further by the funding reductions during the last three years. Further reductions in base funding for the collegiate systems could erode the quality and diversity of educational programs and services. It would be prudent to maintain the intent of the bulge policy until enrollments decline below the 1977 base, then alternative funding policies could be implemented.

When enrollments were growing, state support was provided in relation to the number of students served. As enrollments drop below the 1977 base, funding for the collegiate systems presumably could be withdrawn in a similar manner. This method of enrollment-related funding does not recognize that some costs are fixed and do not decline as enrollments drop. Neither of these policies recognizes that some costs are variable and some are fixed in the short run.

Of the alternative funding policies, two – fixed and variable funding and core program funding – best recognize cost patterns. During periods of declining enrollments, fixed and variable funding prevents severe loss of funds by distinguishing between costs that vary with enrollments and costs that do not. Core program funding ensures that small institutions will be provided with sufficient resources to offer a program consistent with their stated mission, regardless of enrollment levels.

Average cost funding does not recognize differences in cost patterns resulting from changing enrollment levels. Furthermore, it would ignore fixed costs. While program funding recognizes fixed costs, it is not responsive to changes in cost patterns with enrollments.

Quality

None of the existing or proposed alternative funding policies contains explicit incentives for providing high quality services. This does not mean that high quality programs do not exist in Minnesota institutions or that current policies inhibit the offering of high quality programs. However, they do not specifically address the issue of defining and measuring the quality of services being provided.

Productivity

There are no explicit incentives in current funding policies for increasing productivity with alternative educational technologies or procedures. In fact, some disincentives exist. If an AVTI, for example, wanted to substitute a computer for a faculty member, the institution would lose the funds which supported that faculty member two years later.

As enrollments decrease, it is probable that some positions will be lost and others reallocated to new or higher priority programs. With pressures to reduce spending yet save jobs, obtaining funds for implementing alternative technologies and procedures may be difficult. Nonetheless, alternative technologies should be supported in the educational process as a means of enhancing quality and improving productivity.

None of the proposed alternatives directly supports increased productivity. However, average cost funding, by reducing funding directly with enrollments, provides an indirect but strong incentive to increase productivity.

Summary of Costs

When compared to current funding and tuition policies, some alternative policies would cost the state significantly more and others significantly less. This section summarizes the savings or costs of the alternative funding and tuition policies. Tables 2 through 6 contain summaries for each system and one for all four systems. The savings for a particular alternative are the reduced levels of state appropriations for operations compared to those levels under current funding and tuition policies. The costs displayed in the tables in parentheses are the increased levels of state appropriations that would be required by a given combination of policies. These savings and cost estimates do not include the additional appropriations that might be required for financial aid as a result of tuition increases.

The tables show that average cost funding would yield more savings than any other current or alternative funding policy. This would be expected since average cost funding would vary resources in proportion with enrollment. Savings for all

"Average cost funding would yield more savings than any other current or alternative funding policy."

systems resulting from an average cost funding policy would be as high as $24.2 million annually under the current tuition policy. Fixed and variable cost funding would yield savings for the state if implemented for the AVTIs with the current tuition policy. The same combination would cost the state additional funds if implemented in the three collegiate systems. Fixed and variable cost funding and current tuition policies implemented in all four post-secondary systems would cost the state as much as $9.7 million more than current policies annually. The implementation of the AVTI program funding policy in the collegiate systems with the current tuition policy would be the most expensive alternative. This combination would cost the state up to an additional $24.8 million annually. Finally, core funding for the Community College System would cost the state up to $.5 million annually under the current tuition policy.

TABLE 2
ESTIMATED SAVINGS AND COSTS OF
ALTERNATIVE FUNDING AND TUITION POLICIES
AS COMPARED TO CURRENT FUNDING AND TUITION POLICIES
IN CONSTANT DOLLARS[1] (IN MILLIONS)
AREA VOCATIONAL-TECHNICAL INSTITUTES

	Average Cost Funding		Fixed and Variable Cost Funding	
Year	Current	Alternative	Current	Alternative
1984	–	$ 1.7	–	$1.6
1986	$ 1.8	5.4	–	3.9
1988	3.0	6.6	$ .4	4.4
1990	2.4	5.9	.3	4.2
1992	6.0	9.4	1.3	5.4
1994	11.3	19.3	2.3	6.8
1996	13.0	15.9	2.8	7.4
1998	13.6	16.4	3.0	7.2
2000	14.5	17.3	3.0	7.8

[1] Constant F.Y. 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

The alternative tuition policy implemented in conjunction with any alternative funding policy would generate significant savings for the state when compared to the current tuition policy. An average cost funding

TABLE 3
ESTIMATED SAVINGS AND COSTS OF
ALTERNATIVE FUNDING AND TUITION POLICIES
AS COMPARED TO CURRENT FUNDING AND TUITION POLICIES
IN CONSTANT DOLLARS[1] (IN MILLIONS)
COMMUNITY COLLEGE SYSTEM

	Fixed and Variable Cost Funding		Program Funding		Core Funding	
Year	Current	Alternative	Current	Alternative	Current	Alternative
1984	–	$1.1	–	$1.1	–	$ .9
1986	–	2.7	–	2.7	$ .2	2.5
1988	–	2.7	$(.4)	2.6	(.4)	2.5
1990	$(.2)	2.4	–	2.5	(.3)	2.3
1992	(.3)	3.1	(.3)	2.7	(.4)	2.7
1994	(.6)	3.6	(1.2)	2.4	(.4)	3.0
1996	.5	3.6	(1.5)	2.3	(.5)	3.0
1998	.5	3.6	(1.4)	2.3	(.4)	3.0
2000	.5	3.5	(1.3)	2.3	(.4)	3.0

[1] Constant F.Y. 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

"An average cost funding policy implemented with the alternative tuition policy would generate annual savings as high as $39 million (in constant dollars)."

policy implemented with the alternative tuition policy would generate annual savings as high as $38.8 million. If a fixed and variable cost funding policy were combined with the alternative tuition policies, savings totaling as much as $16.6 million annually for the four systems could be achieved. The program funding alternative most clearly illustrates the revenue generating ability of the alternative tuition policy. Program funding and the alternative tuition policy would provide stable staffing and funding for the collegiate systems at no additional cost to the state. In fact, savings of up to $11.5 million also could be achieved. Finally, core funding for the Community College System would save the state up to $3.0 million under the alternative tuition policy.

TABLE 4
ESTIMATED SAVINGS AND COSTS OF
ALTERNATIVE FUNDING AND TUITION POLICIES
AS COMPARED TO CURRENT FUNDING AND TUITION POLICIES
IN CONSTANT DOLLARS[1] (IN MILLIONS)
STATE UNIVERSITY SYSTEM

	Average Cost Funding		Fixed and Variable Cost Funding		Program Funding	
Year	Current	Alternative	Current	Alternative	Current	Alternative
1984	–	$2.7	–	$2.7	–	$2.7
1986	–	5.4	–	5.4	–	5.4
1988	$1.0	6.5	$(.3)	5.6	$(2.3)	4.3
1990	1.3	6.7	(.4)	5.6	(2.7)	4.1
1992	1.9	7.3	(.5)	5.6	(3.5)	3.6
1994	4.0	9.0	(1.3)	5.4	(6.0)	2.3
1996	4.5	9.4	(1.5)	5.4	(6.7)	1.9
1998	3.6	8.6	(1.1)	5.5	(5.3)	2.7
2000	3.4	8.5	(.9)	5.6	(4.6)	3.2

[1]Constant F.Y. 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

"Core funding for the Community College System would save the state up to $3 million under the alternative tuition policy."

TABLE 5
ESTIMATED SAVINGS AND COSTS OF
ALTERNATIVE FUNDING AND TUITION POLICIES
AS COMPARED TO CURRENT FUNDING AND TUITION POLICIES
IN CONSTANT DOLLARS[1] (IN MILLIONS)
UNIVERSITY OF MINNESOTA

	Average Cost Funding		Fixed and Variable Cost Funding		Program Funding	
Year	Current	Alternative	Current	Alternative	Current	Alternative
1984	–	$ 2.4	–	$2.4	–	$2.4
1986	$3.3	7.4	$(1.4)	4.3	$(2.8)	3.4
1988	4.9	9.1	(4.3)	2.9	(7.0)	1.2
1990	5.1	9.4	(5.2)	2.5	(8.5)	.3
1992	5.2	9.5	(5.5)	2.3	(8.3)	–
1994	6.1	10.5	(8.9)	.5	(13.3)	(2.4)
1996	6.7	11.3	(11.5)	(.5)	(16.6)	(4.2)
1998	6.6	11.2	(11.2)	(.7)	(16.1)	(3.9)
2000	6.4	11.0	(10.4)	(.3)	(14.6)	(3.1)

[1]Constant F.Y. 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

TABLE 6
ESTIMATED SAVINGS AND COSTS OF
ALTERNATIVE FUNDING AND TUITION POLICIES
AS COMPARED TO CURRENT FUNDING AND TUITION POLICIES
IN CONSTANT DOLLARS[1] (IN MILLIONS)
ALL PUBLIC SYSTEMS

	Average Cost Funding		Fixed and Variable Cost Funding		Program Funding		Core Funding	
Year	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative
1984	–	$ 6.8	–	$ 7.8	–	$ 6.2	–	$ .9
1986	$ 5.1	18.2	$(1.4)	16.3	$(2.8)	11.5	$ .2	2.5
1988	8.9	22.2	(4.2)	15.6	(9.7)	8.1	(.4)	2.5
1990	8.8	22.0	(5.5)	14.7	(11.2)	6.9	(.3)	2.3
1992	13.1	26.2	(5.0)	16.4	(12.1)	6.3	(.4)	2.7
1994	21.4	38.8	(8.5)	16.3	(20.5)	2.3	(.4)	3.0
1996	24.2	36.6	(9.7)	15.9	(24.8)	–	(.5)	3.0
1998	23.8	36.2	(8.8)	15.6	(22.8)	1.1	(.4)	3.0
2000	24.3	36.8	(7.8)	16.6	(20.5)	2.4	(.4)	3.0

[1]Constant F.Y. 1980 dollars adjusted for funding reductions in F.Y. 1982 and F.Y. 1983.

"The enrollment declines and fiscal constraints of the 1980s will make it difficult for Minnesota to maintain this array of public post-secondary institutions at acceptable levels of quality."

V. EDUCATIONAL ISSUES RELATED TO FUNDING POLICIES

Funding policies and decisions have an impact, sometimes indirect, on many important educational issues. Decisions regarding educational finance must address these issues whenever possible so they can be considered and addressed by financing methods. This chapter reviews the major educational policy issues which were raised by the Task Force review of funding policies. These issues are size and number of institutions; program effectiveness; ways to increase productivity in instruction and support programs; the role of the private sector; implications of finance policies for student assistance; providing public services on a contractual basis; the appropriate role for legislators, the governor, and governing boards; and state responses to declining enrollments in elementary and secondary education.

THE SIZE AND NUMBER OF POST-SECONDARY INSTITUTIONS

None of the current or alternative funding policies reviewed directly addresses the issue of the size and number of Minnesota's public post-secondary institutions. The size and number of public institutions, however, could adversely affect the quality and vitality of public post-secondary education. Minnesota decisionmakers have chosen to provide access to post-secondary education by establishing 63 public campuses throughout the state. Many of these institutions are small by national and regional standards. Small institutions, however, are not inherently inferior. But they tend to be much more expensive to operate than large institutions. Small institutions are unable to achieve significant economies of scale in either instructional or support activities. Further, they are typically unable to provide the same breadth of academic offerings as large institutions.

The enrollment declines and fiscal constraints of the 1980s will make it difficult for Minnesota to maintain this array of public post-secondary institutions at acceptable levels of quality. System revenues will shrink as a result of enrollment declines and fiscal stringency. Small institutions likely will become even more expensive on a per student basis as enrollments decline and, consequently, place an even greater financial burden on systems. Core funding for all small institutions, while necessary to ensure a minimal program, would require additional resources or additional strain on large institutions. The maintenance of all 63 institutions in their present form could weaken the quality and vitality of public post-secondary education in Minnesota. Alternatively, the consolidation of some institutions might allow Minnesota to protect or even enhance the quality and vitality of public post-secondary education. Fewer, but larger, institutions likely would be able to provide less expensive education and a wider array of program offerings. Fewer institutions would not necessarily reduce participation in post-secondary education. Many counties in Minnesota without institutions have higher participation rates to post-secondary education than do counties with one or more institutions. Obviously, geographic proximity does not ensure greater participation in post-secondary education. Funding policies can be implemented which would provide an incentive to governing boards to consider alternative ways to organize institutions and programs.

EFFECTIVENESS

None of the current or alternative funding policies reviewed would provide direct incentives to improve the effectiveness of public post-secondary institutions in Minnesota. Effectiveness relates to the outputs of education and to the differences resulting from this process. The concept of effectiveness should encourage institutions to establish objectives and measure their achievements. Effectiveness, as such, is not advanced by current funding policies. In fact, if the current funding policies and all existing institutions and programs are maintained, effectiveness could be affected adversely. Funds, however, could be provided to institutions and programs in ways which would directly encourage greater effectiveness.

PRODUCTIVITY

The evaluation of current funding policies concluded that they contain no explicit incentives for increasing productivity. Disincentives for productivity improvement in the AVTI funding policy were cited.

"Since state funding and tuition policies for the public sector could adversely affect the private sector, these impacts should be considered in the development of state finance policy."

Further, none of the alternatives reviewed necessarily would provide explicit incentives for productivity improvement.

Increased productivity, however, would seem to be one way for post-secondary institutions to respond to the challenge of declining enrollments and resources. Despite funding reductions, institutions conceivably could maintain or even expand course offerings through improvements in productivity. Productivity could be encouraged through a separate funding policy.

THE PRIVATE SECTOR

State funding and tuition policies for public post-secondary education also affect the private sector of post-secondary education. The private sector is an important part of post-secondary education in Minnesota. Minnesota private colleges, professional and vocational schools number approximately 115. These institutions enrolled 53,000 students, or 21 percent of Minnesota's enrollment in post-secondary education in fall 1981. The state has recognized the contributions of the private sector through two programs. The State Scholarship and Grant Program provides financial aid to Minnesota residents attending either public or private post-secondary institutions. The state also appropriates a small level of funding to private institutions under the Private College Contract Program.

Private institutions face the same prospects of declining enrollments and resources as the public institutions. Private institutions also draw a large portion of their enrollments from the declining pool of traditional college age students. The fiscal implications of declining enrollments are very direct for private institutions. Since they typically receive two-thirds of their revenues from student charges, that revenue will decline proportionately with enrollments.

A recent study of costs and revenues in Minnesota private colleges has concluded that tuition revenue will have to increase from $75 million to $142 million by 1987 in order to offset anticipated reductions in state and federal financial aid, despite vigorous efforts to raise additional income from private sources.

The Coordinating Board recently recommended a state policy toward private post-secondary education. The policy included the following recommendation:

That the dual system of public and private higher education is essential to the vitality of educational services in the state of Minnesota, and that decisions made at the state level should reflect the interests of maintaining and promoting a strong private sector.[1]

Since state funding and tuition policies for the public sector could affect adversely the private sector, these impacts should be considered in the development of state finance policy.

COORDINATION

Coordination of post-secondary education in Minnesota is neither explicitly encouraged nor discouraged by the current or alternative funding policies reviewed. Coordination is defined here as cooperation between post-secondary education institutions. This could be cooperation between institutions within a system, between institutions in different systems, or between institutions in different sectors. Examples of coordination might include the offering of joint programs, the coordination of existing offerings, or the sharing of facilities or support services. In fact, present funding arrangements and the organizational features they create and sustain discourage increased coordination.

Coordination is desirable since it could expand educational opportunities and make more effective use of existing programs and facilities. Since neither the current nor the alternative funding policies would provide direct incentives for coordination, a separate policy would address this issue best.

RELATIONSHIP BETWEEN EDUCATIONAL COSTS AND FINANCIAL AID

How the state finances post-secondary education has a significant impact on students and their need for financial aid. Educational costs are composed of tuition, required fees, educational books and supplies, and living costs. For many students, tuition represents a major component of educational costs. For financially disadvantaged students, rising costs directly impede their ability to finance and attend post-secondary education. Whether tuition is raised on an ad hoc basis in response to state shortfalls, or in response to explicit policy considerations, additional funds should be invested in financial aid to maintain the commitment to assist economically disadvantaged students.

ALTERNATIVE PROVISION OF EDUCATIONAL SERVICES THROUGH CONTRACTING

There is growing pressure to reduce public expenditures and improve the effectiveness of public programs. One way to improve effectiveness and perhaps reduce the cost of public services

[1] Minnesota Higher Education Coordinating Board, *Public Policy Toward Private Post-Secondary Education in Minnesota* (June, 1982).

"The manner in which Minnesota has responded to enrollment declines in public elementary and secondary education may provide insight useful in formulating policies for post-secondary education."

is to contract for these activities in a competitive manner. Under this approach, both public and private institutions could bid for the right to operate a needed service. Presumably, these contracts would be provided on a fixed term basis. Contracts would only be renewed if the services provided were deemed to be of acceptable high quality. This approach would result in public institutions being treated more like private entities, and incentives would exist to provide high quality services. By contracting for services, it would also be easier for the state to reduce or eliminate programs if they were no longer needed.

CLARIFICATION OF LEGISLATIVE, EXECUTIVE AND GOVERNING BOARD ROLES IN FUNDING PROCESS

The review of the appropriations process in Minnesota post-secondary education has revealed wide variation in roles of the legislature and governing boards. At one end of the spectrum, the Community College System exercises wide discretion in the allocation of funds among the institutions and functions under its jurisdiction. At the other extreme is the AVTI System with a detailed formula determined by the legislature establishing appropriation levels and very little discretion left to the governing board, the State Board for Vocational Education. Between these two extremes fall the University of Minnesota and the State University Board. While the Board of Regents retains wide discretion over finance policy for the University, more than $35 million in state funds are dedicated to special programs and cannot be used for other purposes. The State University System falls closest to the AVTI pattern with specific legislative decisions on funding levels for individual institutions including Southwest State, Metropolitan State and Bemidji State Universities.

The key issue is the extent to which the legislature and the executive are going to hold governing boards accountable for managing funds most effectively. Or, in contrast, the extent to which the legislature and the governor will attempt to make managerial decisions and, in effect, assume the role of the governing board.

In view of serious funding and educational choices in the next decade, clarification of the roles to be played by the three parties would contribute to more effective policy making and governance. If the legislature insists upon making the management and governing decisions, then the legislature should not be surprised at inadequate governance from the boards. Likewise, if the governing boards insist upon shifting the hard decisions to the legislature, they should not be surprised at legislative and executive involvement in decisions which the governing boards might more appropriately be expected to perform.

In view of the difficult conditions ahead, further confusion or mixing of these roles is likely. This confusion is not likely to contribute to good management, governance, and policy-making. As resources are constrained, there will be pressure to make uniform reductions across all institutions and programs in an effort to preserve all services and avoid political controversy. These pressures will work to preserve the status quo rather than make selective funding and budget reduction decisions. This tendency will only serve to undermine all programs and reduce quality throughout post-secondary education in Minnesota.

STATE RESPONSES TO DECLINING ENROLLMENTS IN ELEMENTARY AND SECONDARY EDUCATION

The manner in which Minnesota has responded to enrollment declines in public elementary and secondary education may provide insight useful in formulating policies for post-secondary education. The state has responded to declining enrollments in public elementary and secondary education in three ways. First, the manner in which levels of state aid were determined was modified. Second, school districts were required to do long-range program and fiscal planning. Finally, state statutes and regulations were modified to simplify the procedures for consolidation of school districts.

State aid formulas for elementary and secondary education related levels of aid directly to the number of pupils enrolled in a district. The formulas were modified several times to reduce the adverse effects of declining enrollments on aid levels.[2] Aid levels were originally determined by the number of pupils in a single year. When enrollments began to decline, the state shifted to an average of enrollments in the year being funded and the year immediately prior to that year. As enrollments continued to decline, the formula went from a 2-year average to a 3-year average, a 3¼-year, and finally a 4-year average. The effect of the averaging was to reduce school district revenues at a slower rate than enrollments were declining. This approach recognizes that reductions in spending could not be achieved at the same rate as reductions in enrollments because of fixed costs. The slower rate of decline also provided time for school districts to plan expenditure reductions.

[2] *Minn. Stat.* 124.17.

". . . . the state has not mandated specific fiscal or programmatic solutions for local school districts. Rather the state has provided incentives . . ."

The fact that aids were tied to enrollments, though, has tended to result in declining levels of expenditures as enrollments decline. Although school districts do have the option of increasing property taxes, levies are limited by state statute. Thus, the effect of declining enrollments in school districts has been reductions in expenditures and ultimately the closing of schools. This trend has been exacerbated by funding reductions resulting from the state's fiscal difficulties.

As a second response to declining enrollments, the state required each school district to undertake two major planning efforts. First, all school districts were required to develop plans for the efficient and effective delivery of educational programs and services.[3] The plans were to specifically address alternative methods of organization management for elementary and secondary education. Regional educational planning task forces were established to review the district plans and develop a regional plan. A State Department of Education review of this Educational Planning Task Force legislation concluded that:

1. The legislation was implemented successfully;

2. The major trend in the organization of school districts will be to maintain status as independent school districts;

3. Fourteen percent of the school districts felt that the concept of school district pairing or consolidation may be a possible alternative; and

4. The most preferred alternative method of school district management was expanded coordination.[4]

The second effort required all school districts to develop educational goals, a process for achieving the goals, and procedures for monitoring progress in achieving the goals.[5] The school boards were required to annually review the goals and the progress in achieving them. A State Department of Education report on this Local Curriculum Planning, Evaluation and Reporting Legislation reached the following three conclusions regarding the process:

1. Plans for school improvement were a direct outgrowth of the annual evaluation in 54 percent of the school districts reporting;

2. The process appears to be resulting in local citizens being more capable of determining the quality of programs and services being provided; and

3. The process is being used to assist in budget and program reductions because many local districts are experiencing fiscal difficulty.[6]

The third state response to declining enrollments was an effort to simplify and update statutes governing the consolidation of school districts.[7] An extensive review of state statutes and regulations was conducted. Statutes and regulations which allow for consolidation of school districts were revised to simplify the consolidation process. Although the effort was successful in simplifying the process, it has not necessarily encouraged consolidations.

In responding to enrollment declines in elementary and secondary education, the state has not mandated specific fiscal or programmatic solutions for local school districts. Rather, the state has provided incentives, through buffered enrollment related funding, required planning activities, and simplified state statutes for school boards to exercise their management authority.

[3] *Minn. Stat.* 122.86.

[4] Minnesota State Department of Education, *A Review of the Educational Planning Task Force Legislation M.S. 122.86-122.89* (August 31, 1979).

[5] *Minn. Stat.* 123.74.

[6] Minnesota State Department of Education, *A Report on the Department of Education's 1981 Review of the Local Curriculum Planning, Evaluation and Reporting Legislation (PER) M.S. 123.74-123.742* (January 30, 1982).

[7] *Minn. Stat.* 122.23.

"If the limited dollars available are spread over all existing institutions and programs in the future, the quality of post-secondary education will be eroded."

VI. FINDINGS AND RECOMMENDATIONS

Current funding policies for Minnesota post-secondary education were designed in an era of growth. The state and its post-secondary education institutions, however, are entering an era of contraction. There is continuing pressure to curtail public expenditures and taxation. Post-secondary education enrollments are starting to decline. The Task Force strongly believes that maintaining and enhancing the quality of post-secondary education in Minnesota is critical to the future health of the state. Since these fiscal and enrollment trends could adversely affect the quality and vitality of post-secondary education, the Task Force on Future Funding has thoroughly reviewed current and alternative funding policies. The findings and recommendations of the Task Force are presented in this chapter.

Post-secondary education is entering a period of long-term and pervasive enrollment decreases. Total public enrollments are projected to decline by 20-24 percent by 1996. Minnesota historically has related funding for post-secondary education to the number of students enrolled. If this policy is maintained during the next 15 years, there will be a significant reduction in state appropriations for institutional operations. Institutional revenues will be reduced further as tuition declines with falling enrollments.

Enrollment and financing policies also will be affected by the state's financial condition. State revenues have not kept pace with projected spending obligations. Many fiscal obligations have been deferred to future dates. Reductions have been made in state appropriations for public programs, including post-secondary education in 1981, 1982, and 1983. It is likely that state resources will continue to be limited.

As enrollments decline, post-secondary education will have a declining claim on state dollars. As a result, post-secondary education may not be able to compete as successfully as it has in the past with other programs for the now limited state dollars. If the limited dollars available are spread over all existing institutions and programs in the future, the quality of post-secondary education will be eroded.

FINDINGS

1. **Current funding policies will not preserve or enhance the quality of post-secondary education in Minnesota.**

Current funding policies contain no explicit incentives for the provision of high quality educational services. Lack of incentives may not have adversely affected the quality of post-secondary education in an era of growth. A lack of incentives for quality in an era of contraction, however, could result in an erosion of the quality of post-secondary education.

Post-secondary education in Minnesota plays an important role in the state's economy. A trained workforce is vital to maintain a healthy and growing economy. Without high quality educational services, Minnesota will lose one of its foremost public resources at a time when the state must enhance its competitive position for economic growth. Therefore, it is imperative that the quality of post-secondary education in Minnesota be preserved and, wherever possible, enhanced. This will ensure the continued contributions of post-secondary education to improving the health of the state's economy and to the quality of life in Minnesota.

2. **Current funding policies and governance structures do not encourage collaboration and co-ordination between institutions, systems, and sectors.**

Current funding policies for post-secondary education contain few incentives for collaboration and coordination in the provision of educational services. Differing funding policies and organizational structures have tended to encourage competition which has further inhibited collaboration. The lack of incentives becomes obvious upon a review of the collaboration and coordination efforts in the state. Although there are many instances of institutions in close geographic proximity, collaborative efforts between these institutions tend to be only in the form of the joint provision of support services. There are few instances of joint or shared instructional programs.

3. **The distinction between the governing and management roles of the lay governing boards and the broad funding and policy roles of the legislature has been blurred.**

The Task Force has identified the wide variation among the public post-secondary systems in the roles of the legislature and the governing boards. The State Board for Community Colleges is at one extreme with wide discretion in the governance of its institutions. The State Board for Vocational Education is at the other extreme with a formula specified in statute and the least discretion in governing its system. This blurring of roles also tends to blur accountability. In an era of declining enrollments and constrained resources, roles could easily become more blurred. Such blurring of roles and accountability is not conducive to effective governance.

"In an era of enrollment and revenue growth, the state could afford special policies for particular systems and institutions. In an era of contraction, the state should not continue such preferential treatment."

4. **The bulge funding policy accomplished its objective of reducing state funding requirements for the collegiate systems in a period of increasing enrollments.**

The bulge funding policy provided, initially, no state support and later only partial state support for enrollments above a 1977 base in the three collegiate systems. The systems were to provide educational services to the additional students by hiring temporary faculty with the tuition revenue generated by the students. The objectives of the policy were: (1) to reduce state funding requirements in a period of increasing enrollments, and (2) to reduce the need for fiscal contraction and layoffs of permanent staff until system enrollments declined below base levels.

The bulge policy accomplished the objective of reducing state funding requirements. Constant dollar state appropriations per student have declined in all three collegiate systems since 1977. The declines range from a high of 20 percent at the University of Minnesota to a low of 11 percent for the State University System. The effects of the bulge policy, however, have been exaggerated by two factors. First, enrollment growth in the State University System and Community College System has been larger than expected. Second, significant funding reductions have occurred in Fiscal Years 1981, 1982, and 1983. If the bulge policy is to achieve the objective of reducing the need for fiscal contraction until enrollments decline below base levels, it must remain in effect.

5. **Current funding policies do not consistently encourage innovative resource management.**

Current funding policies differ in the extent to which they have encouraged innovative resource management. For example, the University of Minnesota and Community College System receive no special funding for institutional operations. Small or special institutions are funded out of the base budget for each system. This policy has encouraged the University to establish comprehensive plans and priorities and to make allocation decisions. The State Board for Community Colleges has an internal allocation policy which provides core funding for small institutions. In comparison, the State University System has not had to develop such plans because it has been provided with special funding for small or special institutions. The AVTI system has been placed on a stable funding policy for all institutions. These policies have discouraged effective internal planning and the development of priorities as the basis for budget allocations.

The policy, which requires that unexpended funds revert to the state at the end of each fiscal year, reduces or eliminates incentives for the post-secondary systems to generate savings. In a period of enrollment declines and fiscal constraint, it is essential that the state's post-secondary educational services be provided in the most effective and efficient manner possible. Innovative resource management in the public post-secondary systems could generate significant resources. If all savings generated by such management must revert to the state, however, it is unlikely that significant amounts of funds will be saved.

6. **Minnesota public post-secondary systems have been treated inequitably because there is no comprehensive funding policy.**

Current funding policies have not been applied equitably to all systems. For example, in the absence of a formal tuition policy, the state has provided different levels of state subsidy to each system. The bulge funding policy was applied to the collegiate institutions and not the AVTIs. The State University System receives special funding for Southwest State University, Metropolitan State University, and Bemidji State University. In comparison, the University of Minnesota receives no special funding for Morris, and the community colleges receive no additional funding for small, high-cost institutions. In an era of enrollment and revenue growth, the state could afford special policies for particular systems and institutions. In an era of contraction, the state should not continue such preferential treatment.

7. **Current funding policies do not consistently relate funding to levels of enrollment and the costs associated with those levels.**

Prior to 1977, the collegiate systems were funded primarily on the basis of enrollments. The bulge funding policy recognized the marginal costs associated with temporary enrollment growth since 1977 and directed the collegiate systems to support the enrollment bulge with tuition revenue only. On the other hand, program funding for the AVTIs does not address this development or the cost implications of the projected enrollment decline.

8. **Current funding policies do not encourage systems to increase their productivity.**

There are no explicit incentives in current funding policies for increasing productivity. In fact, the AVTI funding policy includes a disincentive. If an AVTI replaced a faculty member with a more productive alternative technology, the current funding policy would withdraw the funds which supported that faculty member two years later. The funding policies for the collegiate systems are neutral

"The level of tuition can have a much greater effect on the state funding obligation than the implementation of any alternative funding policy."

with respect to increasing productivity. In an era of contraction, however, increased productivity is one means systems can use to maintain quality and program breadth.

9. The current AVTI program funding policy is not an educationally or fiscally sound policy in a period of constrained resources and declining enrollments.

Program funding provides few incentives for resource management or coordination with other public institutions because funding levels are essentially stable. The policy is inherently inequitable given current funding policies for the public collegiate systems. Stable funding in a period of enrollment decline and constrained resources is not an educationally or fiscally sound policy.

10. The split budget review and appropriations process for post-secondary education inhibits development of comprehensive policies for the systems of post-secondary education.

The budget review process for post-secondary education is split between collegiate institutions and the AVTIs. While responsibility for recommending collegiate appropriations rests solely with the House Appropriations and the Senate Finance Committees, responsibility for recommending AVTI appropriations rests primarily with the education committees of the House of Representatives and the Senate. This split process has resulted in differential application of funding policies and inhibited the development of comprehensive and equitable funding and tuition policies. The current policy for AVTIs relates funding primarily to program offerings and costs with enrollments as a secondary consideration. The collegiate systems have been funded primarily on the basis of enrollments. The collegiate systems have also been subject to the bulge policy since Fiscal Year 1977 while the AVTIs have not. While the collegiate systems have a long history of tuition charges, AVTI students have only recently been required to pay tuition. AVTI students pay approximately 17 percent of their instructional costs through tuition charges. Students in the collegiate systems, however, provide from 26 to 32 percent of their instructional costs through tuition charges.

11. Tuition is the most powerful finance factor available for changing the state's funding obligation for post-secondary education.

The level of tuition can have a much greater effect on the state funding obligation than the implementation of any alternative funding policy. It would be possible to select the most costly funding option – program funding – couple it with a slightly higher tuition rate, and still reduce state appropriations for post-secondary education. Implementation of any funding policy, other than average cost funding, under present tuition levels, would cost more than current policies.

RECOMMENDATIONS

To address the concerns identified in its findings, the Task Force makes seven recommendations regarding state policies for post-secondary education.

1. A mechanism to reallocate one percent of all expenditures and all savings in order to encourage improvements in the quality and productivity of post-secondary education should be established.

None of the current funding methods or alternative funding methods examined by the Task Force explicitly encourages quality and increased productivity. Yet these are important goals for post-secondary education. Quality must be achieved and enhanced throughout the total system. Productivity must be increased in a period of declining resources. If staff are reduced and funds for supplies and equipment cut, it will be imperative for systems and institutions to find ways to stretch limited resources. This is particularly true for small institutions which do not have a large budget base and are operating close to the minimum core program.

To address this concern, the legislature and governor should require each governing board to set aside one percent of its operating budget to support specific program proposals and procedures which will either increase quality or productivity. One percent of operating budgets would amount to $5 million per year. These funds should be set aside annually and supplemented with budget savings that would otherwise revert to the treasury at the end of the fiscal year. The fund for quality and productivity could be controlled by each governing board and be used for equipment purchases, permanent staffing positions, guest appointments, travel, and staff training. Funds awarded under this proposal could be permanent or temporary. Projects receiving funds should demonstrate through measured evaluations that quality was improved and productivity was enhanced.

2. Greater collaboration and coordination between institutions, systems and sectors must be encouraged.

Collaboration and coordination in the provision of educational services is a primary way to improve the efficiency and effectiveness of the services. Efficiency and effectiveness are particularly important in a period of limited resources and declining

"In view of the difficult conditions facing post-secondary education, the Task Force feels that governing boards should have maximum amount of discretion in the management of their institutions."

enrollments. Collaboration and coordination need not be limited to post-secondary education. Elementary, secondary, and post-secondary education institutions could benefit from increased cooperation. Consequently, funding policies must provide incentives for increased collaboration and coordination in the provision of educational services.

3. **The state should honor the commitment of the bulge funding policy as enrollments decline.**

The bulge funding policy originally required the collegiate systems to enroll students beyond a 1977 base level with no additional state funding. The implicit commitment was that no state funds would be withdrawn until enrollments declined below the bulge funding base. Some state funding was provided for a part of bulge enrollments in the State University System and the Community College System. This state funding should be withdrawn on the same basis it was provided as enrollments decline. State funding for base enrollments, however, should not be withdrawn as a result of enrollment declines until enrollments go below the 1977 bulge level. The years in which system enrollments are projected to drop below the bulge base level vary. University of Minnesota enrollments are projected to drop below the bulge enrollment level in F.Y. 1985. State University System enrollments in the five campuses to which the bulge policy has been applied are projected to drop below their bulge enrollment level in F.Y. 1988. Enrollments in the Community College System are not projected to drop below its bulge enrollment level.

State decisionmakers may wish to implement a new funding policy before all systems' enrollments drop below their respective bulge enrollment levels. In this case, the expenditure base to which the new policy is applied should be adjusted to reflect the effects of the bulge funding policy.

4. **The state should adopt a comprehensive cost related tuition policy for post-secondary education and adjust funding for need based financial aid to prevent loss of access by low income students.**

The current state tuition policy provides differing percentages of state subsidy to post-secondary systems. This policy clearly does not provide similar rates of subsidy to systems or students. The Task Force recommends that tuition revenue at the system level should be related to the cost of providing instruction. Tuition revenue should constitute a uniform percentage of instructional expenditures in each system. The percentages should be used by the legislature in setting levels of state appropriations. The percentage should not apply to governing boards as they establish tuition rates within their systems.

Such a comprehensive tuition policy could result in increases in tuition rates in some cases. To prevent loss of access to post-secondary education by low income students, the state should adjust funding for need based financial aid.

The amount of state appropriations required is directly related to the levels of expenditures and tuition revenue. Once system expenditure levels are set, tuition revenue becomes a direct offset to state appropriations. This relationship raises several issues in the development and implementation of funding methods for post-secondary education.

If state funds are reduced but expenditure levels maintained, systems will look to higher tuition revenue as the source of additional money. In fact, this tradeoff was made in 1982 and 1983 when state revenue did not meet projections. If state revenue continues to lag behind approved expenditures and spending levels are reduced and if further cuts are necessary, the relationship between budgets and revenue should be clarified. It is neither good policy nor fair to continue to ask students to pick up the state's reduced share automatically. A comprehensive statewide tuition policy would alleviate this problem and could be used to specify the funding responsibility of taxpayers and students.

5. **The governing boards of the systems must have the maximum amount of responsibility and discretion with respect to policy and allocation decisions regarding their institutions. Legislative involvement in policy and allocation decisions regarding individual institutions should be discouraged.**

In its review of current funding policies, the Task Force identified a recent trend toward legislative involvement in policy and allocation decisions regarding individual institutions. The decisions in which the legislature became involved are those typically made by governing boards. The legislative involvement has come through governing board initiative in some instances. An example is legislative involvement in funding and staffing levels for Southwest State University. The legislative involvement has come through legislative initiative in other instances. An example is the special funding provided to Bemidji State University. The ultimate consequence of legislative involvement in governing board decisions is inevitably a diminution of the governing authority of the board and an obfuscation of roles.

In view of the difficult conditions facing post-secondary education, the Task Force feels that governing boards should have maximum amount of discretion in the management of

". . . in a period of constrained resources state funding for post-secondary education must decline with enrollments. Consequently, an enrollment related funding policy is recommended."

their institutions. It is not likely that the state will have resources sufficient to maintain all post-secondary services at their current levels. The post-secondary governing boards are in the best position to make judgments regarding the number and type of educational services to be offered by their systems and to manage those systems effectively and to ensure the preservation and enhancement of quality.

6. **Post-secondary education appropriations decisions should be unified under one committee in each legislative body.**

The Task Force report has identified the dual budget review and appropriations process for post-secondary education that exists in the Minnesota House of Representatives and Senate. The public collegiate systems budget requests are reviewed by the House Appropriations Committee and the Senate Finance Committee. The budget request for area vocational-technical institutes is reviewed by the House Education and Senate Education committees. This procedure has resulted from the fact that the AVTIs are governed by the State Board of Education and locally controlled. They are, however, a post-secondary education system and receive the second largest appropriation of the four public post-secondary education systems.

The divided budget review process for post-secondary education has resulted in inequitable treatment of post-secondary education systems and their students and the implementation of very different funding methods. Resolution of these inequities and the adoption of comprehensive, equitable, and efficient policies could be facilitated if post-secondary education appropriations decisions were consolidated under one committee in each legislative body.

7. **Average cost funding should be the basic funding policy for Minnesota public post-secondary education systems. The policy should:**
   a. **buffer funding changes associated with enrollment changes;**
   b. **control for differential growth in programs and levels of instruction;**
   c. **be applied uniformly to all four public systems and provide no special or separate legislative funding for specific institutions or programs.**

Levels of expenditures should be related directly to the volume of activity. Particularly in a period of constrained public resources, state funding for post-secondary education must decline with enrollments. Consequently, an enrollment related funding policy is recommended.

A pure average cost funding policy would relate all funding directly to enrollments. For example, a five percent drop in enrollments would be translated directly into a five percent drop in expenditures. By constraining resources, an average cost policy would encourage resource management. In constraining resources, however, a pure average cost policy would ignore fixed costs, including core staffing and funding for small institutions. A pure average cost funding policy would also have severe impacts on systems with declining enrollments since they would be required to reduce expenditure levels directly in proportion to enrollment declines. Although funding policies must provide incentives to encourage resource management, a pure average cost funding policy would treat systems too harshly. Consequently, a buffered average cost funding policy has been recommended.

A buffered average cost funding policy would reduce the adverse impacts of a pure average cost funding policy. The policy would be buffered by relating resources to a two-year moving average of full year equivalent enrollments. The average of enrollments in the two years immediately preceding the year being funded would determine funding levels. The lagging of funding changes behind enrollment changes would provide systems and governing boards time to plan the implementation of staffing and funding changes.

The buffered average cost funding policy would control for differing growth in programs and levels of instruction. This is necessary because costs vary significantly by program and level of instruction. The largest differences occur at the University of Minnesota where, for example, costs for graduate instruction in dentistry are 11 times higher than the costs of lower division instruction in the liberal arts. The AVTIs, the state universities and, to a lesser degree, the community colleges also have significant variations in average cost of instruction by program and/or level of instruction. If a system is funded on the basis of system level average cost but enrollments are declining in the lowest cost programs, the system will be forced to cut expenditures in programs with stable or growing enrollments. To avoid such difficulties, the recommended policy would categorize instructional activities on the basis of: (1) level of instruction (lower division, upper division, graduate and professional), and (2) program cost (low cost, medium cost and high cost). Funding for each category would be based on its average costs and full-year equivalent enrollments. Funding for a given year would be based on the prior years' costs adjusted for inflation.

The recommended policy would be a comprehensive funding policy for public post-secondary education in Minnesota. It would be applied to all four public systems uniformly. The policy would provide funds for all

"The policy would be used by the governor and legislature to derive system expenditure levels. Governing boards would have discretion in the allocation of funds to their institutions."

institutions in each system. Consequently, no special or separate legislative funding arrangements for specific institutions would be needed. The policy would be used by the governor and legislature to derive system expenditure levels. Governing boards would have discretion in the allocation of funds to their institutions.

The policy would provide funding for instructional activities and their support functions. It would not address funding for the following activities for support attributable to them:

a. repairs and betterments,

b. financial aid matching,

c. separately budgeted research,

d. public service,

e. program development in the Community College System,

f. learning centers in the Community College System, and

g. non-instructional special appropriations for the University of Minnesota.

It is the judgment of the Task Force that the implementation of these seven recommendations will help ensure the continued quality and vitality of Minnesota's public post-secondary education systems in an era of declining enrollments and constrained resources.

APPENDICES AVAILABLE UNDER SEPARATE COVER

A. PROJECTED RESOURCE REQUIREMENTS OF CURRENT AND ALTERNATIVE FUNDING POLICIES

B. GOALS TO GUIDE THE INVESTMENT OF PUBLIC RESOURCES IN POST-SECONDARY EDUCATION

C. FULL TEXT OF PRESENTATIONS TO THE TASK FORCE

D. CONSULTANTS' REPORTS
   The Staffing and Budget Needs of Small Colleges
   Report on Enrollment and Costs – Minnesota Community College System